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Algeria	4,000 Dz. Israel	15,100 Norway	4,000 N.J.
Austria	10,000 Dz. Jordan	1,000 U.S. Oman	2,000 P.R.C.
Bahrain	6,000 Dz. Jordan	450 Fis. Portugal	1,000 P.R.C.
Bulgaria	10,000 Dz. Kenya	500 Fis. Portugal	4,000 P.R.C.
Canada	10,000 Dz. Kenya	500 Fis. Spain	16,000 P.R.C.
Cambodia	100,000 Laos	500 Fis. Spain	100 P.R.C.
Chile	100,000 Laos	100 P.R.C. Saudi Arabia	1,000 P.R.C.
Cyprus	100,000 Laos	100 P.R.C. Spain	100 P.R.C.
Denmark	7,000 Dz. Lebanon	100 P.R.C. Spain	100 P.R.C.
Egypt	100 P.R.C. Lebanon	100 P.R.C. Sweden	4,000 P.R.C.
Finland	4,000 P.R.C. Lebanon	100 P.R.C. Switzerland	1,000 P.R.C.
France	2,000 P.R.C. Lebanon	20 P.R.C. Turkey	3,000 P.R.C.
Greece	45 P.R.C. Lebanon	30 P.R.C. Turkey	1,000 P.R.C.
Iceland	2,000 P.R.C. Lebanon	30 P.R.C. U.A.E.	6,000 P.R.C.
Iraq	115 Bok. Nigeria	175 K. Yugoslavia	120 D.

ESTABLISHED 1887

Britain and China Form Panel to Draft Pact on Hong Kong

By Michael Parks
Los Angeles Times Service

BEIJING — Britain and China established a committee Wednesday to draft the agreement that will return the British crown colony of Hong Kong to China in 1997.

The move will intensify the Chinese-British negotiations on Hong Kong's future and appears to mark their final phase, determining the details and language of the agreement. China has said it wants the document published by the end of September.

The official statement, which as usual described the latest round of talks as "useful and constructive," provided few clues on what has already been agreed. However, it was clearly enough to warrant the full-time drafting effort that now begins.

A Chinese-British press statement said: "It was agreed to establish a working group to consider documents submitted by the two sides in pursuit of their objective of reaching an agreement as soon as possible on the question of Hong Kong."

To Western diplomats who have been following the talks closely since they began in late 1982, this meant that the two sides were exchanging drafts of the agreement and discussing how to incorporate the points that have been settled.

Although British lawyers hold that a formal treaty, approved by Parliament and signed by Queen Elizabeth II, will be necessary to return those portions of Hong Kong held "in perpetuity" under 19th-century treaties with China, this agreement may be a more broadly worded commitment, a statement of principles by each side, pending conclusion of state-

ment that London was sending the Foreign Office's Assistant Undersecretary for Asian affairs, David Wilson, and other specialists for the talks. This seemed to indicate an upgrading of the negotiations, which have been conducted by the British ambassador.

Chinese officials said that the move did not represent a political breakthrough in the usual sense because, as one put it, "There really has been no deadlock to break for almost a year now."

"This is more a matter of cumulative progress than can now be

refined, elaborated and, in the end, written down," he added. "We are getting close."

China continues to assure Hong Kong's 5.5 million people that they can keep their free enterprise economy and equally open social system for at least 50 years and that they will enjoy political autonomy from Beijing.

But the constitution that will provide the legal basis for this "special administrative region" has not been drafted, and many important elements of this "one nation, two systems" remain uncertain.

London has said that it wants to get as many assurances in writing as possible about what happens after 1997 for that is the only way that many, if not most, people in Hong Kong will accept China's takeover of the colony.

But Britain's only leverage is its willingness to ease the transition to Chinese rule, since it has been clear for more than a year that it will return the territory to China. The preparations for the transition too will probably be written into the agreement that is now being drafted.

The monthly magazine *China Reconstructs*, in its current issue, acknowledges with unusual candor as "quite understandable" the worry in Hong Kong that Beijing's policies will change, as they have frequently in the past.

It then adds: "A closer look at China's present realities will show that her policies are increasingly stable and her policy of opening to the world will not change, for these are not expedient measures but concern the success or failure of her prospects for socialist modernization."

If the court accepts the Creusot-Loire proposal and approves a receiver, the move could lead to the

liquidation of the company's assets. Such a move would present "major risks for the national economy," Industry Minister Laurent Fabius told the National Assembly Wednesday.

Besides the direct impact on jobs, the government fears that liquidation would be a major blow to the government's efforts to lift business confidence.

Mr. Pineau-Valencienne said he was proceeding with bankruptcy proceedings for two reasons: He said the government had repeatedly refused to accept his rescue plan submitted several months ago, and, secondly, the company had decided that government financing proposals made in the past several days were "exorbitant and illegal."

The announcement quickly became a national political controversy, as Mr. Fabius firmly denied



A HOMAGE TO BERLINGUER — Clinched fists salute the hearse carrying the coffin of Enrico Berlinguer, the estimated one million Italians turned out Wednesday in Rome for the ceremony. Communist leaders and dignitaries from 35 countries assembled for the funeral.

France's Creusot-Loire Files for Bankruptcy

By Axel Krause
International Herald Tribune

PARIS — Creusot-Loire, France's largest privately owned engineering and steel company, filed for bankruptcy Wednesday after shareholders had rejected a government financing plan.

The move was viewed as a direct threat to the Socialist government's policy of combating France's rising unemployment rate, which is approaching a post-war record of 2.5 million, or about 9.9 percent, of the work force.

Creusot-Loire employs about 23,000 people, while an additional 10,000 work for company subcontractors.

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The announcement quickly became a national political controversy, as Mr. Fabius firmly denied

that the government was trying to nationalize the company through a complicated government rescue proposal.

Didier Pineau-Valencienne, the chairman of both Creusot-Loire and its holding company, Empain-Schneider, asserted that the government plan was aimed at nationalizing both Creusot-Loire and Empain-Schneider.

Mr. Pineau-Valencienne said he was proceeding with bankruptcy proceedings for two reasons: He said the government had repeatedly refused to accept his rescue plan submitted several months ago, and, secondly, the company had decided that government financing proposals made in the past several days were "exorbitant and illegal."

The company plan called for injecting about 2.5 billion francs in

new, government-backed financing, which would involve converting previous negotiated loans into capital stock, and about 50 million francs in annual government subsidies to the company's steel affiliates.

Mr. Pineau-Valencienne said that neither Creusot-Loire, nor the Empain-Schneider group, had the funds that the government insisted be provided by shareholders.

"The government asked that we [shareholders] provide 800 million francs or accept a loan of 500 million francs, but this would not change anything," he said.

Creusot-Loire had about 12 billion francs (about \$1.4 billion at current exchange rates) in sales last year, and an operating loss of 1.1 billion francs.

The company plan called for injecting about 2.5 billion francs in

Dutch Cabinet May Lose Vote On Cruise Plan

Compiled by Our Staff From Dispatches

THE HAGUE — The future of the center-right government in the Netherlands appeared to hang on the votes of three undecided politicians Wednesday night as the parliament debated a compromise plan for deploying NATO cruise missiles.

Sources in the governing coalition said an unexpectedly large number of government members was planning to rebel against the proposal, endangering the government's majority in the voting.

About 2,500 anti-nuclear protesters demonstrated outside the parliament building as the 150 legislators discussed the plan for a second and final day.

The government had said it would resign if a majority voted against the cabinet's plan for the deployment of the new cruise missiles. Such a development would indefinitely postpone prospects of stationing the missiles in the Netherlands.

If parliament seriously amended the proposal, thrashed out after weeks of cabinet arguments, the government's survival would probably depend on either parliament or ministers backing down. The other three were uncertain.

The cabinet holds 79 of 150 seats in parliament, but one liberal was expected to be absent due to illness.

The cabinet should get the support of most of the six members of small rightist parties. If all three who are wavering vote against it, this may be insufficient for a majority.

At one point during the debate, an unidentified man jumped on top of the desk at which the prime minister and other members of his government were seated to yell, "The cruise missiles won't come."

"You're a disgusting lot," he said.

The heckler was removed but by ushers and there were no further incidents.

More than 20 motions were to be voted on Wednesday night. Some concerned general questions of arms control and the result of any

(Continued on Page 2, Col. 7)

Reagan Faces Pressure From Congress to Call Summit Talks With Moscow

By Hedrick Smith
New York Times Service

WASHINGTON — For months, President Ronald Reagan has kept the issue of arms control largely on the political sidelines by arguing that it was the Soviet Union that walked out of the nuclear arms negotiations last November and is still blocking their resumption.

But suddenly, with Mr. Reagan just back from Europe and Democrats no longer preoccupied with presidential primaries, it is apparent that he will have more trouble now in fending off pressure from both Republicans and Democrats for some move to break out of the diplomatic stalemate with Moscow.

In an election year, Democrats sense Mr.

Reagan's political vulnerability on arms control, and some Republicans worry that they, too, could be hurt if the White House does not appear conciliatory enough. Beyond that, politicians of both parties express growing unease at the lack of some top-level contacts to reduce the risks of confrontation with the Kremlin.

An important political symptom of growing impatience came in a commencement address at Dartmouth College on Sunday by Howard H. Baker Jr. of Tennessee, the Senate Majority Leader, who called for a Soviet-American summit meeting this year or next. "Direct, regular, genuine, face-to-face, give-and-take" communications between the two most powerful people on Earth is an imperative of our perilous time," Mr. Baker declared.

On Tuesday, backed by Senator Charles H. Percy, Republican of Illinois, chairman of the Foreign Relations Committee, Mr. Baker made his appeal for regular U.S.-Soviet summit meetings directly to Mr. Reagan.

Acknowledging that he had now shifted

away from the White House view, Mr. Baker said that U.S.-Soviet relations had become so tense that U.S. conditions for a summit should be relaxed. "When you have changed circumstances," he said, "you ought to change your strategy."

The administration has declined to engage in any summit encounter unless the

meeting is well prepared and holds sure promise of success.

A White House spokesman, reading a statement after Mr. Reagan's meeting with the senators, said, "Setting a fixed schedule for summit meetings would not in and of itself solve the very real substantive problems existing between our two countries."

"The problem is not our unwillingness to meet with the Soviets," he said, "but the Soviets' refusal to meet with us in the arms-reduction talks."

In a parallel development, the Senate debated, behind closed doors, a move by Democrats and some Republican moderates to link money for purchasing anti-satellite weapons to a requirement that Mr. Reagan make an immediate effort to open negotiations with Moscow on banning or

imposing strict limits on such tests in the future.

Moreover, the debate is expected to broaden to other arms control issues as the Senate takes up other provisions of the military authorization bill and the Democratic Party's platform committee works through foreign policy issues in a separate forum.

Democrats such as Senator Sam Nunn of Georgia assert that most of the major amendments that have been proposed relate around arms control issues such as curbing development of anti-satellite weapons, reducing planned deployment of MX missiles, limiting Mr. Reagan's request for financing research on a strategic defense system, and a resolution endorsing

(Continued on Page 2, Col. 2)

Britain's Pubs Fall on Hard Times; U.S.-Style Refreshment Takes Hold

By Jon Nordheimer
New York Times Service

SHEFFIELD, England — The British pub, whose praises are sung in legend, song and tourist guidebooks, has fallen on hard times.

Changing tastes and the grip of recession are forcing British breweries that own about 50,000 of the 76,000 public houses and hotel bars throughout Britain to redefine what a pub is.

Behind their counter is a dismaying statistic: Since 1979, beer sales have slumped by 12 percent, and an increasing share is now consumed at home out of a can rather than drawn from a tap in a pub.

Market researchers are discovering that a growing number of Britons prefer U.S.-style bars and restaurants and fast-food outlets over the typical pub for their food and drink.

While alcohol consumption has doubled since the 1950s and there is concern over a rise in drink-related health and social problems, young people are turning away from traditional ales and dark beers toward lager, the lighter brew that dominates the U.S. beer industry. Lager sales now account for 35 percent of the British national brews.

Young Britons are also rapidly adopting U.S. tastes for hamburgers instead of "pub grub" like cold pork pies, steak and kidney pies and "bangers and mash" — sausages with whipped potatoes.

Sales of wine, which in the past was restricted by taste and price to the upper classes, have skyrocketed as European Community membership has

forced the British to lower tariffs on inexpensive table wines from Europe. Sales of light wines have quadrupled in 12 years.

Pub operators are now clamoring for changes in the strict British licensing laws that limit pubs to fewer than 10 hours of business six days a week and five on Sunday. Although times may vary locally, basically pubs can open only at 11:30 a.m. and in the evening, closing by 10:30 or 11 P.M.

Pubs, urban and rural, have traditionally been a place in which people from all walks of life could lift a pint in good cheer. The idealized pub or village inn still exists in abundance throughout Britain, but huge numbers of pubs are dreary and boring in the eyes of young adults.

Pubs are losing patronage at a time when more Britons, including working and single people, are going out to eat. Women, according to surveys, are the driving force behind the move away from pubs.

British women are demanding more exciting settings with music and a wider range of beverages, including U.S. cocktails, and non-English foods, according to Hugh Mantle, the specialist operations manager for Whitbread and Company, one of the Big Six of British national brewers.

Eighteen months ago, Whitbread opened an establishment called Henry's at a city center site once occupied by a traditional pub. Called a "cafe bar and restaurant," Henry's is different from a pub in more ways than name.

Young Britons are also rapidly adopting U.S. tastes for hamburgers instead of "pub grub" like cold pork pies, steak and kidney pies and "bangers and mash" — sausages with whipped potatoes.

Sales of wine

Mondale Sets Running-Mate Guidelines

By Bernard Weinraub
New York Times Service

WASHINGTON — Walter F. Mondale has issued a statement saying he would seek a running mate who would be able to "advise a president from a national perspective," serve as a negotiator abroad and actively advance legislative programs on Capitol Hill.

Mr. Mondale, who was near the end of a vacation at Southampton, New York, issued the statement Tuesday through his Washington headquarters to clarify "the selection process" for a vice presidential candidate that he plans to undertake.

Mr. Mondale said he wanted to begin interviews with potential running mates "within a week" at his home in North Oaks, Minnesota, near St. Paul.

"I view the selection of my running mate as the most important decision I will make as the Democratic nominee," he added.

Mr. Mondale says he has enough delegates to win the Democratic presidential nomination, although his main rival, Senator Gary Hart of Colorado, is continuing his candidacy. Mr. Hart has been mentioned as a possible running mate for Mr. Mondale.

Another potential choice, Senator John Glenn of Ohio, said Tuesday in response to questions that he would consider a vice presidential nomination but would not automatically accept it. Mr. Glenn said he thought the possibility of his selection was unlikely.

[On Wednesday, Senator Lloyd Bentsen of Texas, who also has been mentioned as a possible choice, said, "I don't expect to be asked and I'm not seeking the job." He said the second-place spot was likely to go to "somebody like Gary Hart." United Press International reported.]

Mr. Mondale said that a friend and senior adviser, John R. Reilly, who is a partner in a Washington law firm, would "manage this search" and "make sure that hundreds of Americans are considered, outstanding candidates identified, and careful research conducted."

He observed that "women and minorities" would be included in his search. "My choice will be guided by the need to select someone totally qualified to assume the office of the president should that be necessary," he said.

Mr. Mondale's statement went

on to say, "There are many ways in which a vice president can help a president govern. For example:

"The vice president, the only other official elected nationwide, can advise a president from a national perspective.

"Without specific ties or allegiances, the vice president can help break through the bureaucracy and solve complex problems.

"A vice president can speak for the president on Capitol Hill and help advance the president's legislative program.

"The vice president can be the president's most effective spokesperson with the public.

"The vice president can extend the president's reach in foreign policy by conducting negotiations at the highest levels and serving as the president's eyes and ears abroad."

Mr. Mondale said he felt "very deeply about the need to search as far and wide as I possibly can for the best candidate." Citing his own experience as vice president under President Jimmy Carter, Mr. Mondale said: "It has been my privilege to have worked more closely with a neo-Christians than any vice president in

history. I believe I have a unique understanding of the demands that are placed on a president and the ways in which a vice president can be helpful."

■ McGovern Backs Mondale

George S. McGovern endorsed Mr. Mondale for president on Wednesday and urged his 23 convention delegates to follow his lead, United Press International reported from Washington.

Mr. McGovern, the Democratic presidential candidate in 1972 and the first of Mr. Mondale's seven rivals to support him, said the decision was "not easy for me" because Mr. Hart was director of his 1972 presidential campaign.

"I think a Mondale-Hart ticket is the strongest and that it does gather on one ticket the best vote-getters we've got," Mr. McGovern said at a news conference.

Mr. McGovern said he does not agree with all of Mr. Mondale's views, "but I know that he is guided by a practical knowledge of economics, politics and diplomacy unimpeded by the values of the Ju-

de-Christian ethic. I am



The Associated Press

A Moslem woman carries her child across the Green Line, which divides the Moslem and Christian sectors of Beirut.

Reagan Pressured to Call Arms Talks

(Continued from Page 1)

the 1972 strategic arms control agreement.

"This is arms control year," Representative Les Aspin, Democrat of Wisconsin, said at a conference sponsored by the American Stock Exchange. "Everybody is for arms control. We have more arms control amendments on this bill than defense amendments. There is a very, very strong interest in arms control."

For many Democrats, the focus on arms control represents something they have wanted to use to challenge Mr. Reagan for months but have lacked the right legislative vehicle and the right moment.

With the presidential election now less than five months away, the heat of the primary battles over, and Walter F. Mondale an outspoken advocate of regular summits and a nuclear freeze, the military authorization bill now before the Senate has given them a prime political opportunity.

Beyond that, aides to Mr. Baker suggested, Republicans as well as Democrats in Congress shared the public uneasiness about the hardening stalemate with Moscow and the lack of high-level contact,

This was reflected Tuesday by Charles T. Manatt, the Democratic Party chairman, who accused Mr. Reagan of the "radically provocative" step of having "precipitously committed America to prepare for war in space" with his request for financing research on a space-based defense.

Mr. Manatt asserted that the Democratic Party was "united in policy and in dedication to act to halt the dangerous provocation of defensive weapons in space."

With public-opinion polls showing majorities in favor of arms control measures, some Republicans facing re-election say they have felt more to promote better relations with the Soviet Union and to get arms talks going again.

The administration meets its critics with the argument that anti-satellite weapons and space-based defense must be developed to prevent falling behind. Politically, the White House is must to argue that Americans must have enough stamina and patience to wait out what officials call Moscow's current diplomatic "ibernation" without offering the Kremlin un-

warranted concessions.

Lebanese Army, Militia Clash Briefly in Beirut

Reuters

BEIRUT — The Lebanese Army clashed sporadically with members of the Shitate Moslem militia Amal in the southern suburbs of Beirut on Wednesday, but the level of violence was the lowest so far this week, security sources said.

The combatants used mortars, grenades and automatic weapons. The only casualty was a soldier wounded in the village of Hadath, east of the line dividing the mainly Moslem shantytowns from Christian suburbs in the hills, army sources said.

Political activity came to a virtual standstill after several hectic days ending Tuesday in a parliamentary vote of confidence in the national unity government of Prime Minister Rashid Karame, a Sunni Moslem.

The cabinet's regular Wednesday meeting was postponed Tuesday night after Amal leader, Nabil Berri, and the Druze Moslem chieftain, Walid Jumblat, told Mr. Karame that they and their cabinet colleagues needed time to get over the latest violence.

At least 105 people were killed and 250 wounded in Beirut on Monday when Amal, the rightist Christian militia and other groups allied shell civilian areas of the Lebanon capital.

Political sources said the two Moslem militia leaders were also giving Mr. Karame time to do some preparatory work on how to reunite the fragmented Lebanese Army, the main issue dividing the cabinet of nine Moslem and Christian ministers.

Syria, which encouraged Mr. Karame's appointment in April, also welcomed the outcome of the parliamentary session. The Syrian

media described it as a step toward reconciliation.

Al Baath newspaper of the ruling Baath Party in Damascus, however, that Israel and the United States would try to prevent progress toward reconciliation.

The newspaper said Syria hoped all parties in Lebanon would be willing "to confront whatever Washington and Tel Aviv carry out, either directly or through their agents to obstruct the march of security and justice."

Mr. Berri, who accused the Lebanon Forces, a Christian militia, of starting Monday's shelving under orders from Israel, contacted Syrian leaders Wednesday to discuss security.

The Lebanon Forces, who had close ties with Israel, replied to Mr. Berri's accusation by saying he was trying to make personal political gains at the expense of West Beirut civilians.

Meanwhile, Lebanon's fledgling peace movement, which has had little impact so far on the warring militias, is organizing a national petition for an end to armed forces in internal conflicts.

Run by the May 6 March Committee, the movement has invited Lebanese citizens to sign the petition at three places in East and West Beirut starting Friday.

The document says: "No to fratricidal combat, yes to civil peace... We announce a ban on resorting to arms to settle disputes between Lebanon and call for commitment to dialogue as the only method to solve them."

The committee is named for a peace march planned for May 6 but called off after an outbreak of shelling.

WORLD BRIEFS

Labor Talks Break Down in Stuttgart

STUTTGART (AP) — Renewed discussions aimed at ending the walkout paralyzing West Germany's auto industry broke off Wednesday as thousands of metalworkers staged fresh warning strikes.

The powerful IG Metall union complained of "irreconcilable differences" when the negotiations, interrupted by a four-day recess, ended after only three hours. No date was set for resuming the talks. West Germany's worst labor dispute in six years has idled about 370,000 metalworkers who are seeking a 35-hour workweek without pay cuts.

There were no signs of progress in separate negotiations Wednesday on the 10-week wave of limited walkouts by printers who are also demanding a five-hour reduction in the workweek. About 5,800 printers in 50 shops across the country staged warning strikes Wednesday to block publication of Thursday's newspapers in Frankfurt, West Berlin, Hanover and Munich or force them to put out smaller editions.

Yugoslav Leaders Reject Pluralism

BELGRADE (AP) — Speakers at a plenary session of the Central Committee of the Yugoslav Communist Party criticized on Wednesday the leadership for losing political influence on the people, but the committee ended by dismissing the possibility of a multiparty system.

The two-day session was convened to deal with ideological problems, including increased calls for radical changes of Yugoslavia's system. The official news agency, Tito, reported that one communist member, Pal Benak, complained that senior party leaders were making decisions without consulting lower-ranking party organizations. Milos Mino, a former foreign secretary, was quoted in the Belgrade newspaper Politika as saying that "elections in practice are a formality" in Yugoslavia.

But Nadjim Pasic, a veteran party ideologist, warned that "a democratic dialogue through introduction of a multiparty political pluralism would represent a defeat of the self-management course of development." Self-management, or economic and political power-sharing, is a basic feature of communism in Yugoslavia.

Jewish Terrorist Suspect Confesses

JERUSALEM (AP) — A man has admitted belonging to a Jewish group that Israeli officials charge is responsible for a series of attacks on Palestinians over the past four years, a government spokesman said Wednesday.

The admission was the first by any of 25 suspects mostly settlers on the West Bank and Golan Heights, who face charges that include premeditated murder. A court ruled on May 3 that their names may not be published.

The suspect also admitted to helping plan the 1980 car bombings that killed two Arab West Bank mayors and blinded an Israeli policeman, the Justice Ministry spokesman, Yitzhak Feinberg, said. A murder charge against the suspect was dropped and he had agreed to confess to all the charges brought against him in a new indictment, officials said.

Shultz Backs U.S. Anti-Terrorist Bill

WASHINGTON (AP) — Secretary of State George P. Shultz asked Congress on Wednesday to pass a law making it illegal for Americans to support to terrorist organizations sponsored by other nations and backed a proposal offering rewards of up to \$300,000 for information on terrorist acts.

Several members of the House Foreign Affairs Committee, where Mr. Shultz made his request, doubted the constitutionality of a law under which the secretary of state would designate nations as supporters of terrorism and forbid Americans from cooperating with them.

Of the estimated 500 terrorist incidents worldwide in 1983, Mr. Shultz said, 37 percent were in Western Europe, 25 percent in Latin America, 23 percent in the Middle East and North Africa, 8 percent in Asia and the Pacific and 3 percent in Africa. North America, including the United States, Canada and Mexico, had 2.5 percent and the Soviet Union and Eastern Europe less than 1 percent.

Libya Urged to Change Policy on Foes

LONDON (UPI) — Amnesty International said Thursday it had sent a message urging the Libyan leader, Muammar Qaddafi, to renounce what it called his official policy of liquidating opponents at home and abroad.

The human rights organization noted that seven people were hanged this month on suspicion of opposing the regime. It also noted the announcement May 28 that local groups had organized "suicide squads" to pursue "enemies of the revolution anywhere in the world and liquidate them physically."

Amnesty International said in its message to Colonel Qaddafi "urgently敦促" him to renounce its official policy of physical liquidation of its enemies."

For the Record

The Rev. Charles Stanley, the fundamentalist pastor of the First Baptist Church of Atlanta, defeated two more moderate candidates Tuesday to become president of the Southern Baptist Convention, the nation's largest Protestant denomination. Mr. Stanley, 46, gained 52 percent of votes cast by delegates at the convention in Kansas City, Missouri. (LAT)

A U.S. Appeals Court in Washington has upheld the Federal Communications Commission in establishing long-distance access charges for millions of residential and business telephone users. In effect, this means higher local phone bills and lower long-distance costs. (UPI)

France exploded a small nuclear device at its Mururoa Atoll testing site on Wednesday, New Zealand's National Observatory reported. (UPI)

French naval authorities boarded a Spanish fishing trawler Wednesday and ordered it to a French port one day after a French trawler was comandeered by Spanish sailors off the coast of Spain. The authorities in both countries contended that the fishing boats were operating illegally in their territorial waters. (AP)

President Gaspar Nimeiry of Sudan ordered the release Wednesday of Joseph Mamara, an Italian priest, who was publicly flogged recently and given a 30-day prison sentence for possessing alcohol in violation of Islamic law, the Middle East News Agency said. (UPI)

The Sudanese government said Wednesday that its troops repelled several attacks by armed rebels in the Upper Nile region in the past week, killing 255 insurgents and wounding many others. Government forces lost eight killed and 18 wounded, a communiqué from the Armed Forces General Command said. (UPI)

A British freighter that normally carries Exocet missiles crashed into London Bridge on Wednesday before hundreds of tourists lining the river banks. The 2,900-ton Jupiter was carried sideways by a heavy tide into the river.

A spokesman said it was "trying to carry out a three-point turn in the 'Thames'" a spokesman said. The ship, which was dented, was pulled off by tugs. (UPI)

Prime Minister Pieter W. Botha of South Africa left Rome for Pretoria on Wednesday at the end of a European tour aimed at winning recognition for moves to establish peace with black African neighbors and introduce nominal reforms at home. (UPI)

Turkey and Canada signed an agreement Wednesday that, upon approval by governments of both countries, would permit Canada to participate in plans to build Turkey's first nuclear power plants, the Turkish Foreign Ministry said. (AP)

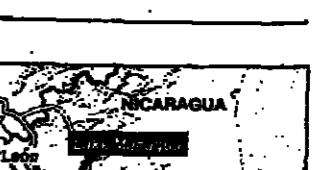
Correction

A map accompanying an article

in Wednesday's editions of the International Herald Tribune on efforts in Nicaragua to rejuvenate Lake Managua did not correctly

locate the lake. The accompanying map indicates the lake's position.

The International Herald Tribune regrets the inaccuracy.



Dutch Near Vote on Missiles

(Continued from Page 1)

vote on these would not be crucial. A few key motions, however, proposed major alterations or reconsideration of the government's plan. If any of these were approved, the cabinet would face major difficulties.

The cabinet might then resign, causing new elections, since it would have no workable policy on the issue, government sources said.

Alternatively, ministers could try to negotiate a solution with parlia-

ment, but it was difficult to see how this could be achieved.

(Reuters, UPI)

ment, but it was difficult to see how this could be achieved.

Belgium Maintains Stand

Belgium will stick with NATO plans to deploy cruise missiles whatever the Dutch decision, Belgian officials said Wednesday, according to a Reuters report from Brussels.

"Naturally we hope the Dutch government gets a majority for its decision, but there is no connection between the Dutch and Belgian situations," an official said.

East German Holocaust Museum Extols Communism's Past

By William Drozdik

Washington Post Service

BUCHENWALD, East Germany — The Russian soldiers and other tourists stroll in silence through the tiny museum, gazing at pictures of human stables crowded with the hollow faces and emaciated limbs that have become a familiar symbol of the Holocaust.

Artifacts from the days of Nazi persecution are exposed in gruesome detail: lampshades made of human skin, sand-filled skulls that served as paperweights and a human heart pierced by a bullet that earned his marksmanship.

In the crematorium, a row of brick ovens, kept clean and tidy, stands as perhaps the most odious testament of the concentration camp.

The hilltop quarry site near

WORLD BRIEFS

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South Africa

U.S. and South Africa

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Criminal Penalties Removed From House Immigration Bill

WASHINGTON — The House voted Wednesday to remove criminal penalties against employers from an immigration bill. It also voted to require U.S. businesses with four or more workers to make certain their employees are legally in the United States.

The House approved an amendment by Representative E. Thomas Coleman, Republican of Missouri, striking the criminal penalties from the legislation. The bill still includes warnings and civil fines up to \$2,000 against employers for each illegal alien hired.

The measure originally called for criminal penalties including imprisonment and fines up to \$3,000 per offense for repeat offenders.

In an earlier round of voting, the House eliminated a provision in the bill stating that only employers who had previously been caught hiring illegal aliens would have to keep records on their workers' legal status.

The provision was based on the theory that it would be unfair to require the paperwork from employers who had not violated the law.

The vote was 321-97 on an amendment by Representative Daniel E. Lungren, Democrat of California, to strengthen the record-keeping requirements to include all companies. Later, the

House yielded to small businesses with a voice vote exempting those who employ three or fewer workers.

The House also voted to strike from the bill a proposal to study the feasibility of a national identity card.

The Senate-passed bill leaves the matter of identifying eligible workers to the executive branch of government. It says the president must within three years create a system to determine eligibility. The differences between the House and Senate bill will have to be ironed out before the measure is sent to the White House.

In other votes on the immigration measure, the House took the following actions:

- Defeated on a voice vote an amendment to ease record-keeping requirements on farmers.

- Defeated on a voice vote an amendment that would have allowed fines against employers caught hiring illegal aliens to range to levels far below those specified in the bill.

- Approved, 242-155, an amendment to establish a system under which employers could call a toll-free telephone number to check whether potential employees were in the United States legally.

The House has launched what is likely to be a prolonged and bitter

confrontation as it considers 69 amendments to the bill.

The measure seeks to stem the flow of illegal aliens across U.S. borders by levying fines and jail terms on employers who knowingly hire them. It also would offer amnesty to aliens who could prove that they have been in the United States since Jan. 1, 1982.

The bill, sponsored by Senator Alan K. Simpson, Republican of Wyoming, and Representative Romano L. Mazzoli, Democrat of Kentucky, has passed the Senate. But the House caught in a crossfire from a range of powerful groups angered by various provisions of the measure, has been unwilling to deal with it until now.

(LAT, AP)

Duarte Dissolves Unit Linked to Death Squads

The Associated Press

SAN SALVADOR — The new government of President José Napoleón Duarte in El Salvador has taken a step toward combating rightist violence by dissolving a police intelligence unit that had been linked to death squads.

The Treasury Police director, Colonel Rinaldo Golcher, said Tuesday that the S-2 intelligence unit in his agency was dissolved earlier this week and its 100 agents were sent to combat positions at isolated posts in the east, where some of the heaviest fighting against leftist guerrillas has taken place.

Accusations of death squad activity "have permanently been lodged against the S-2," Colonel Golcher said, although he added that there was no evidence to support the allegations.

The unit was disbanded because of reports of illegal action by some S-2 agents and as a way to improve the image of the Treasury Police, Colonel Golcher said.

Two S-2 agents have been indicted and another is sought in a

kidnapping and killing March 30 of a wealthy Salvadoran landowner, José Carlos Llori.

Colonel Golcher said an investigation of the unit has begun, but so far the only criminal discovery had been the alleged involvement in the Llori case.

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U.S. House Unit Seeks Firmer Control of CIA

By Martin Tolchin

New York Times Service

WASHINGTON — Leaders of the House Select Committee on Intelligence say they plan to press for legislation that would require the Central Intelligence Agency to inform Congress of a broad range of covert activities.

The House Intelligence Committee staff has recommended a plan that far exceeds an agreement signed last week between William J. Casey, the CIA director, and members of the Senate Intelligence Committee.

Under current law, the agency is required to keep Congress "fully and currently informed" of "significant anticipated intelligence activities."

According to the staff report, "Clearly, the committee's concept of what is significant has not been shared by key intelligence officials."

The Senate Intelligence Committee complained recently about not being informed of the agency's role in the mining of the Nicaraguan harbors and the House committee said the agency had failed to provide notification of its role in the Salvadoran elections.

Representative Lee H. Hamilton Jr., Democrat of Indiana, said he and Representative Edward P. Boland, Democrat of Massachusetts, planned to offer a package of legislation intended to place strict controls on the agency.

The House staff report recommended that the agency be required to notify the committee of any activity approved by the president.

In addition, the staff recommended that the committee be notified on these other matters:

- Any transfer of U.S. military equipment that could alter the na-

ture of U.S. relations with the country receiving it.

- The use of any means, including the employment of force, that departs from the scope of a program involving covert action.

- Material changes in the objectives of a covert program.

- The use of U.S. military personnel or equipment in covert programs.

The staff also urged that the committee be notified of the use of CIA staff or contract employees or "unilaterally controlled U.S. persons or foreign nationals in the support or conduct of paramilitary operations."

The report also said the committee should be told of any operation intended to affect the processes by which any nation selects its form of government and any activities in the United States that support a covert program.

Mr. Casey has had periodic trouble financing his army of 2,000 men, which is trying to topple the leftist Sandinist regime in Managua, but he has steadfastly refused to join other rebels, backed by the U.S. Central Intelligence Agency, who are fighting from havens in Honduras.

El Castillo, where the fiercest fighting was reported, was also the scene of an operation by the National Guard of President Anastasio Somoza, whom the Sandinists toppled in 1979.

U.K. Communists Fail To Regain Newspaper

The Associated Press

LONDON — Leaders of the British Communist Party have lost a two-year struggle to regain control of the party's daily newspaper, *The Morning Star*.

Shareholders elected only two of five party-nominated candidates to the newspaper's 15-member management committee on Tuesday. The result means that the editor, Tommy Chater and his deputy, David Whittle, look certain to retain their jobs. The party leadership broke with Mr. Chater when he pursued a hard-line pro-Soviet policy.

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INTERNATIONAL HERALD TRIBUNE, THURSDAY, JUNE 14, 1984

Florida Orphan Gets \$281,490 In Jewel Fund

United Press International

NEW YORK — A Florida orphan, Eric DeWilde, 17, became \$281,490 richer at an auction here of jewels he found lying by railroad tracks near his home.

The 29 pieces auctioned Tuesday at Christie's included uncut diamonds and a diamond-and-emu-sid brooch. A second sale of 46 pieces is planned at Christie's East on June 21. The money will be held in trust for Mr. DeWilde by the Northern Trust Bank of Florida.

Mr. DeWilde, a high-school dropout who lives with his aunt, Modena Turt, in Hollywood,



Eric DeWilde

Florida, found the gems on March 17, 1983, in a yellow vinyl bag.

He and his aunt turned the gems over to police, who returned to the tracks and found 20 more rings and brooches.

In South Carolina, Thurmond Repels First Primary Challenge in 20 Years

Compiled by Our Staff From Despatches

WASHINGTON — Senator Strom Thurmond, Republican of South Carolina, has easily won his first primary election in 20 years.

Mr. Thurmond, 81, the Senate president pro tem and Judiciary Committee chairman, won about 95 percent of the votes to 5 percent for Robert Cunningham, a retired CIA agent. Mr. Thurmond has not faced a primary opponent since he jumped to the Republican Party 20 years ago.

His opponent in November was still in doubt in Wednesday. With more than 99 percent of the precincts reporting, Melvin Purvis Jr. held a lead of fewer than 1,000 votes over Cecil Williams.

Neither of the challengers is con-

sidered a serious threat to Mr. Thurmond, who was first elected to the Senate in 1954 as a Democrat.

In other elections Tuesday, voters in Rhode Island elected a \$250 million reindeer farm program called the Greenhouse Compact.

The acting mayor of Providence, Rhode Island, Joseph R. Paolino, won a five-way Democratic primary for mayor. The previous mayor, Vincent Cianci Jr., was forced to resign after receiving a sentence of a felony conviction.

Senators Gary Hart of Colorado won North Dakota's first Democratic presidential primary in 50 years. Walter F. Mondale, who says he has enough delegates to guarantee his nomination next month, and the Rev. Jesse L. Jackson did not appear on the ballot. No delegates were at stake in the voting.

Primary elections for the U.S. House of Representatives were held in some districts in Maine, Virginia, Arkansas and South Carolina. (UPI, AP)

The Indians say fires are allowed to burn out of control, destroying many hundreds of square miles of forests. They point to miles of trap lines destroyed by bulldozers.

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**INTERNATIONAL
Tribune**

Reaching More Than a Third of a Million Readers
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South Africa Accord Splits Mozambique, Black Nationalists

By Allister Sparks
Washington Post Service

MAPUTO, Mozambique — The alliance between Mozambique and the main black opposition to the South African government is deteriorating rapidly under the effects of a peace accord signed in March between Pretoria and Maputo.

It is an abrupt twist in ties between the government of President Samora Machel of Mozambique and the African National Congress, which is fighting to end white minority rule in South Africa.

Since Mozambique gained independence from Portugal in 1975, Mr. Machel had been a strong backer of other black liberation movements, and the African National Congress had been launching guerrilla activities from here.

But three months ago Mr. Machel, buffeted by a strong South African-supported guerrilla movement and a drought, signed a nonaggression and "good neighborliness" treaty with the white government in Pretoria.

The situation worsened, a senior official

in the group, Thabo Mbeki, arrived recently from the organization's headquarters in Zambia for talks with Mozambican officials.

"We have been allies for a long time," Mr. Mbeki said in a broadcast May 29. "Pretoria would like to weaken the alliance because they are afraid of it. Therefore they have been cooking up stories about a quarrel."

Despite Mr. Mbeki's protestations, bitter

recriminations continue to be heard here and in the black townships of South Africa.

"Samora was our No. 1 hero," said a black community leader in Johannesburg's segregated township of Soweto. He added that "the celebrations went on for days" after Mr. Machel's guerrilla movement had taken over from the Portuguese.

Sahs Cooper is a black South African who went to prison for six years for organizing an illegal rally to celebrate Mr. Machel's trumph.

Although he belongs to a rival organization of the African National Congress, Mr. Cooper shared that organization's sense of having been let down by the Mozambican leader.

"It didn't serve six years for the sake of the Nkomati accord," he said.

Mr. Cooper's counterpart is a young Mozambican official who is close to Mr. Machel.

"You can ask someone to die for a cause if there's some prospect of success, but not if there's none," the official said. He was inter-

viewed that the African National Congress expected Mozambique to suffer reprisals from South Africa for supporting a segregated campaign that was getting nowhere.

Accusing the African National Congress of being ideologically thin and lacking organization within South Africa, the Mozambican said his members "think you can motivate people just by shouting slogans."

He added: "That is yesterday's liberation politics. You can't do it anymore in the '80s. Today you are going to be judged by your program of action, your effectiveness, and if that fails short, you can't expect a country like ours to go on sacrificing its own interests for your cause."

The last word in this dispute goes to Mr. Mbeki in his peace-making efforts.

"We want the destruction of colonialism in Namibia, the destruction of apartheid in South Africa, and the liberation of both peoples," he said in his broadcast. "These common policies have overtaken whatever problems, differences or misunderstandings might have arisen between us."

South African Guerrillas Begin 3d Decade in Jail

Reuters

JOHANNESBURG — Nelson Mandela and seven other leaders of a banned South African nationalist group have begun the third decade of their life prison sentences for plotting the overthrow of the country's white minority government. They will probably never be freed.

The eight were sentenced 20 years ago Tuesday on charges of sabotage and plotting violent revolution.

The group led the high command of the African National Congress, the main guerrilla challenge to white rule in South Africa.

Their imprisonment after a series of sabotage attacks dealt a devastating blow to the nationalist group, which has been outlawed since 1960.

The 20th anniversary of their convictions also finds the group at a low ebb, but this time the blows have been dealt by South African diplomacy rather than by its courts.

Political analysts said one serious setback for the African National Congress was a nonaggression pact that South Africa signed with Mozambique in March under which each country agreed to deny the use of its soil for actions against the other.

Swaziland disclosed that it had signed a similar accord with South Africa two years ago, and Lesotho has bowed to South African pressure and expelled members of the group.

"Now faced with a series of written and covert agreements between South Africa and its neighbors," Andrew Prior, a politics professor at the University of Cape Town, wrote recently, "the ANC will find it increasingly difficult to ferry mil-



Nelson Mandela

itary equipment and personnel through friendly pipelines."

The analysts said that the nationalist group and especially Mr. Mandela, its charismatic leader, still commanded wide support among blacks.

"He is a folk hero for blacks," said Helen Suzman, a white opposition politician. Prime Minister Margaret Thatcher of Britain raised Mr. Mandela's case this month in a meeting with Prime Minister Peter W. Botha of South Africa.

Mr. Mandela, who will be 66 next month, was imprisoned in 1961 for five years and sentenced to life imprisonment three years later together with the other seven — Andrew Mlangeni, Raymond Mhlaba, Ahmed Kathrada, Andrew Mnguni, Govan Mbeki, Elias Motsoaledi and Dennis Goldberg.

"These pieces of evidence are terribly precious as they help give a picture of the society as a whole," Mr. Miller said. "They could add greatly to our knowledge and understanding of ancient Athenian life."

While conceding that the area's potential archaeological value, government officials maintain that the new road is necessary to ease the flow of traffic.

"It is a monstrous problem and we are trying to correct it," said George Andreotakis, an adviser in

Greek Archaeologists Fight Highway Plan

New York Times Service

ATHENS — Ancient Greeks called it Hieros Odos, the Sacred Road. It was the route traveled by Athenians to Eleusis for the secret rites of fertility and regeneration known as the Mysteries.

Today the 12-mile (19-kilometer) road has become the focus of a dispute between the government and archaeologists.

At issue is a plan to demolish a four-mile stretch of the existing road, built a few decades ago, and to replace it with a four-lane highway connecting two traffic rings. Archaeologists say the area is replete with antiquities.

"There is a constant tension," said Stephan G. Miller, director of the American School of Classical Studies, "between the need to conserve antiquities vital to our understanding of the past, and the legitimate needs of a modern society to move around the country all the time."

Archaeologists think the construction area includes burial grounds dating to the sixth century B.C. They may yield sepulchral art works, monuments and tombstones.

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"It is a monstrous problem and we are trying to correct it," said George Andreotakis, an adviser in

The Ministry of Public Works, which is building the road in conjunction with the Ministry of Culture and Science.

Dilapidated buildings, mostly small businesses, line the road to Eleusis, now a sprawling industrial area. According to Mr. Andreotakis, the rebuilding, with wide sidewalks and archaeological parks on either side, will give the area a face lift.

A spokesman for the Culture Ministry, which directs the National Archaeological Service, said special care would be taken to preserve antiquities.

"We are not really digging," he said. "We are just covering the surface."

But archaeologists say they are wary of such assurances.

"How do you build a road?" said one of them. "You do it with heavy machinery, not fine tools. Drainage alone could damage the antiquities."

The issue has prompted protests in the Greek press and elsewhere. The Association of Greek Archaeologists has called for a halt to the construction and for designating the road as a protected site. A group of college students and their professors has threatened to lie in front of

SCIENCE

**Bethe Confronts
The Bomb's Legacy**By William J. Broad
New York Times Service

NEW YORK — An impatient young weapons designer wrote to Dr. Hans A. Bethe not long ago, urging the eminent physicist to stop his opposition to the development of a new generation of nuclear weapons.

"Look here, you were very enthusiastic when you made the atom bomb, even though there were some old people who said it couldn't be done," the young physicist wrote the elder one. "Now don't tell us the same thing. We want to have our chance."

The young physicist's frustration is shared by many of the young scientists at work at national laboratories on what they regard as the next generation of nuclear weapons — those designed to be used as a defensive shield in space.

And given Dr. Bethe's past involvement with nuclear weaponry, the frustration is not hard to understand. Dr. Bethe, whom Time magazine in 1940 called "one of Nazi Germany's greatest gifts to the United States," was a key architect of the atom bomb. And yet he is adamantly opposed to the current thrust of nuclear-arms development.

Why is it so important to the younger generation of physicists to have his approval? And why do they not have it?

Dr. Bethe, a 1967 Nobel laureate in physics, stands out as among their leading and most articulate opponents. Moreover, at 77, his research work continues to have the kind of importance and fascination that demands their deepest respect.

He says that his opposition is not a result of some lingering regret over his contribution to the atom

bomb in World War II. He has, he said in a recent interview, no regrets at all.

"It's important to be clear about the different situations," he said. "Today the arms race is a long-range problem. The second world war was a short-range problem, and in the short range I think it was essential to make the atomic bomb."

"However," he continued, "not much thought was given to the time after the bomb." At first, the work was too absorbing, and we wanted to get the job done. But I think that once it was made it had its own impulse — its own motion that could not be stopped."

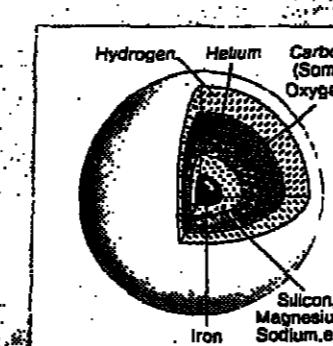
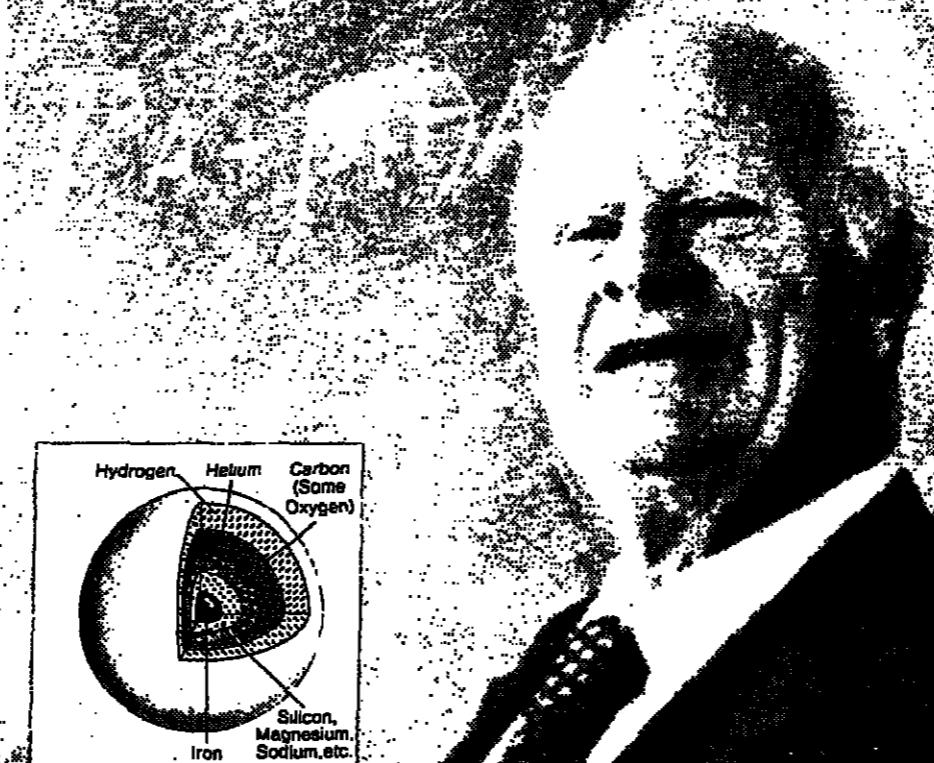
He said he has spent the years since then trying to stop the bomb's own impulse and that he believes this motion can and must be stopped.

Dr. Bethe, a professor emeritus of theoretical physics at Cornell University, was from 1943 to 1946 the head of the theoretical division of the Manhattan Project.

Now Dr. Bethe has turned his energies in opposition to the proponents of space-based missile defenses.

"These people want to eliminate the danger of nuclear weapons by technical means," he said. "I think this is futile. The only way to eliminate it is by having a wise policy. That means going back to the policy of the six presidents preceding Reagan," he said, meaning back to and including President Dwight D. Eisenhower. Dr. Bethe said those administrators pursued a policy of "understanding — still insisting on our rights, of course, but also having some understanding for the concerns of the Russians."

After World War II he advised



Besides the arms question, Dr. Hans Bethe is studying the behavior of aging stars, which can suddenly explode. Layers of heavier elements build up at the star's core until the combined weight causes it to collapse. Then the dense core rebounds, causing a supernova.

the U.S. government on matters of weapons and arms limitation, becoming the prime mover behind the first and most successful arms control treaty between the superpowers, the 1963 Limited Test Ban Treaty, which confined nuclear tests to beneath the earth.

Between 1956 and 1959 he was a member of the President's Science Advisory Committee, and was asked to study the feasibility of developing anti-ballistic missiles.

From the start, he said, he was not optimistic. He had already developed decoys that could be jettisoned from offensive missiles to confuse defense systems. Dr. Bethe and his colleagues became convinced that all anti-ballistic missile systems (ABMs) could be defeated. It was just too easy and economical, they thought, to improve offensive missiles.

Moreover, even if they worked, defensive systems might still touch off a holocaust, they said. In the 1960s, during the debate over anti-ballistic missiles, Dr. Bethe said: "We exist in peace today only because each side knows it cannot win a nuclear war. Once this balance of terror is broken — as it will be with the ABM, since that will let one side think it has an advantage — then we will have a continuing spiral of increasing arms and further instability."

Today Dr. Bethe argues the same point, saying so-called defensive systems could kill an aggressor into thinking he could make a sudden massive attack on a foe and then block the response.

To strike back at defensive systems before they destabilize the "balance of terror," Dr. Bethe recently helped write a report for the Boston-based Union of Concerned Scientists that dismissed space-based beam weapons, the 1980s ideal of a shield. The report said an enemy could easily outsmart such weapons.

Lately he has been particularly intrigued by one of the most futuristic of the beam weapons — the X-ray laser, a device that would take the power of a nuclear blast and channel it into powerful beams that would flash across space at the speed of light to destroy enemy missiles. During an attack, the lasers would be "popped up" into firing position high above the atmosphere.

Last year Dr. Bethe visited the young inventors of the X-ray laser, many of whom are in their 20s, at the Lawrence Livermore National Laboratory in California. "The young people who work on these projects are very enthusiastic" and they have done an ingenious job in creating the device, he said. But, he added, it would never work in time of war because the Earth itself would get in the way.

"The great question is whether you can get an X-ray laser up high enough before the booster has burned out and started to dispense decoys and warheads," he said.

"But that," he added with dry understatement, "is not so easy because the earth is round."

There are those who vigorously disagree.

"Is Hans Bethe a good physicist?" asked Dr. Lowell Wood, the physicist who is in charge of the group of young weapons designers at Livermore. "Yes, he's one of the best alive. Is he a rocket engineer? No. Is he a military systems engineer? No. Is he a general? No. Has he ever put a weapon in the stockpile? No. Has he ever fought a war? No. Everybody around here respects Hans Bethe enormously as a physicist. He dabbles as a military systems analyst."

Yet after all is said and done, Dr. Bethe ultimately places his faith not in technology but in human beings. Only humane reasoning and the struggle to foster human relationships, he said, will stem the drift toward nuclear war.

"We need to try to understand the other fellow and negotiate and try to come to some agreement about the common danger," he said. "That is what's been forgotten."

The solution can only be political. It would be terribly comfortable for the president and the secretary of defense if there was a technical solution. But there isn't any."

One reason the young physicists

Comet Swarm: A Link to Past?By Walter Sullivan
New York Times Service

BALTIMORE — The great 1908 explosion in Siberia, a strange lunar flareup seen by monks in 1178, and in 1975 the severe jostling of seismographs left by astronauts on the moon may have all been manifestations of the same phenomenon. An astrophysicist suggests that the culprit in each case was a swarm of about 100 cometary fragments that constitute "a new feature of the solar system."

The suggestion was made by Dr. Kenneth Brecher, an astrophysicist who also specializes in archaeological aspects of astronomy. Dr. Brecher proposed to the American Astronomical Society meeting, which opened here Monday, that the phenomenon be called "The Canterbury Swarm." It was Germaine, a prelate in Canterbury, who recorded that on June 25, 1178, when the moon was a very thin crescent, "The upper half of the new moon seemed to split in two and a flame shot out of it."

It was proposed in 1976 that this



A forest scene after the 1908 explosion in Siberia.

was the impact of a large object producing one of the youngest lunar craters known as Giordano Bruno. Furthermore, several years ago the Czech comet specialist L. Kresak suggested that the mysterious Siberian blast of June 30, 1908, was the explosive disintegration high in the atmosphere of a fragment of Comet Encke. The comet returns to circle the sun more frequently than any other comet — once every 3.249 years.

Encke is thought to have shed the debris that falls into the atmosphere in June and November as the Taurid showers of meteors or "shooting stars." The November meteors are known as Taurids because they seem to originate in the constellation Taurus. They occur at the times each year when the Earth passes through the trail of Encke's path around the sun. Kresak noted that the Siberian explosion coincided with the June passage. It leveled a wide region of forest and shook the entire planet.

The swarm of impacts recorded by lunar seismographs between June 22 and 26, 1973, was the most intense "storm" of meteoroids observed during 10 years of operation by the lunar network. Dr. Brecher has now calculated that all these events were caused by return of the same cloud of fragments shed by Encke, or its progenitor before 1718.

Earth and the moon will not pass through it until 2042, he said, but in June, 1985, will come within 20 million miles of it, perhaps close enough for photographic detection. He estimates that it contains 100

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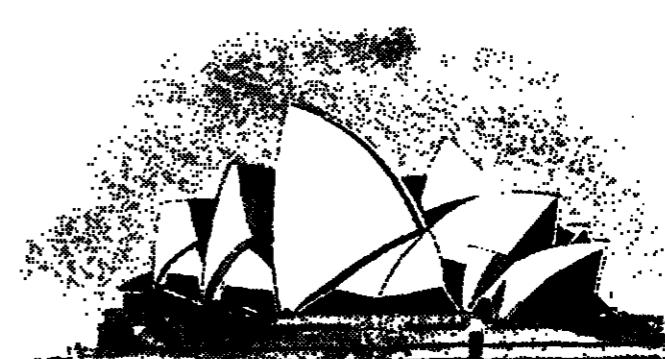
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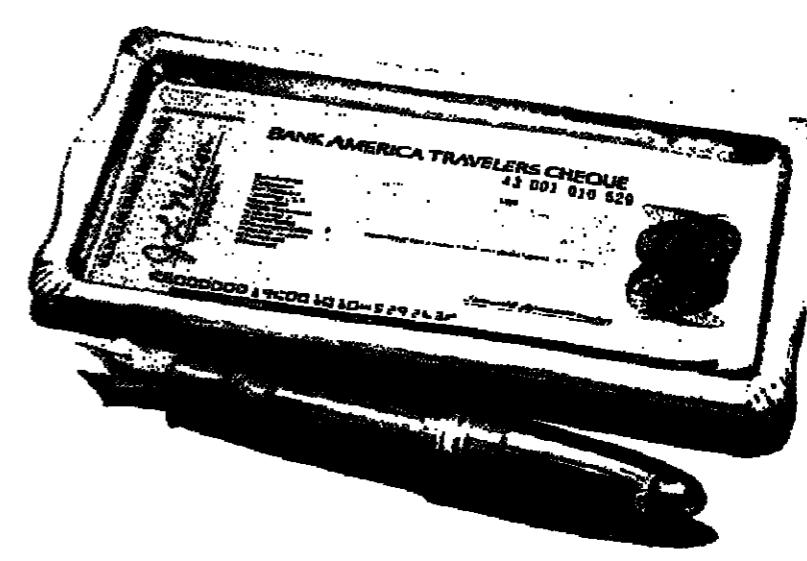
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WATERFRONT LIVING



Can't Beat The Experience

Herald Tribune

Published With The New York Times and The Washington Post

Anti-Missile Missiles

The Pentagon's timing is every bit as wondrous as its marksmanship. Just as the Senate was about to debate anti-satellite missiles and consider cutting the \$1.7-billion budget for the Star Wars program, the Defense Department announced the successful test of a new space warfare device. A missile intercepted and destroyed a dummy nuclear warhead by deploying a 15-foot metal spiderweb in its path. "We really tried to hit a bullet with a bullet and it worked," an Army official exulted.

The test is certainly an achievement, but the interception has much less relevance to Star Wars than to winning money from Congress. Surely the Senate, as it scrutinizes the Star Wars venture for the first time, will know better than to be swayed by a single shot.

Intercepting one missile with another when both are traveling at thousands of feet per second is indeed like "hitting a bullet with a bullet." But that feat was first achieved 20 years ago before construction of the Safeguard anti-ballistic missile system in North Dakota.

Safeguard was abandoned, after an expenditure of more than \$5 billion, as it became clear that an attacker could easily overwhelm its "bullets" by a shotgun blast. The question ever since has been how to hit a shotgun blast with a shotgun blast.

The Army is no nearer solving that problem, but it has made a definite improvement over the Safeguard system. To compensate for lack of accuracy, Safeguard's interceptor missiles carried nuclear warheads. The new interceptor, known as a homing vehicle, senses the heat of an incoming warhead, and positions itself exactly in a head-on collision path. No expla-

nive is necessary; at that speed, mere impact causes destruction. The anti-satellite missile being developed by the Air Force works on the same principle.

It is an ingenious technology, sweet to its inventors and builders, and attractive to all who prefer a shield to the naked terror of deterrence. But the idea of a shield remains wishful, not wise, and the anti-satellite device will make the world more dangerous, not less.

The Air Force's homing vehicle is far more sophisticated than the erratic anti-satellite missile so far tested by the Russians. Yet once the Air Force has tested its device, Moscow will feel compelled to improve its own system. The ensuing race will, among other things, make U.S. satellites less secure. That, in turn, could endanger the means to detect and reply to a Soviet attack.

The Army's homing vehicle, meanwhile, is a small part of what would be needed for a full-scale defense against Soviet missiles. Will such a defense ever be feasible? The prospect is "so remote that it should not serve as the basis of public expectation or national policy," in the verdict of the Congressional Office of Technology Assessment. Even the Defense Department does not expect to decide whether to deploy a Star Wars defense until 1990.

Yet the administration wants to spend \$1.7 billion on Star Wars research this year. What is the hurry? The technology to launch a perfect shield against enemy missiles is not even in sight. The only thing promised by a crash program to launch half-tested ideas is, like Safeguard, another crash.

— THE NEW YORK TIMES.

The Eurocommunist

Enrico Berlinguer, who died Monday at the age of 62, headed the Italian Communist Party, the largest in the West, but he followed no standard party line. He criticized Moscow over Poland and Afghanistan and spoke up for human rights in the Soviet bloc. In Italian politics, he discarded strategies premised on revolution and instead preached coalition with the Christian Democrats. His platform called parliamentary democracy and adherence to NATO and the Common Market.

All this was designed to attract the post-war generation, for which the Italian communists' anti-Fascist resistance was just an old war story. The strategy brought Mr. Berlinguer remarkably close to success in the late 1970s.

Then other parties, chiefly the Socialists, successfully challenged his contention that the communists were the only alternative to the Christian Democrats.

It was the same elsewhere in Mediterranean Europe. Italy, Spain and France all now have governments led by Socialists, who eclipsed the odds of "Eurocommunism" to become the parliamentary alternative to conservatism.

Mr. Berlinguer was therefore never able to prove his contention that a party wedded to Stalinism could be trusted, once in power, to accept the rules of the democratic game. His death brought tributes to his personal integrity, the doubts about his party live on.

— THE NEW YORK TIMES.

No Case for Steel Quotas

One-fourth of the steel used in the United States is now imported, a proportion that has sharply increased over the past year. Is the domestic steel industry being injured by these imports? By three votes to two, the U.S. International Trade Commission found that in most (but not all) cases, injury was demonstrable. That leads to the next question, to be answered in July: What remedy will the ITC recommend to President Ronald Reagan?

This case was brought by the Bethlehem Steel Corporation and the United Steelworkers union, who want import quotas holding foreign steel to 15 percent of the market. The final decision lies with the president — to be made in the midst of the election campaign.

The real issue is whether the rising imports are the cause of the U.S. steel industry's weakness or the result. Many foreign governments subsidize steel exports to build their own industries and hold down unemployment. But there are five other conspicuous reasons for the big U.S. steel companies' troubles.

First, demand for steel is dropping in the United States, with the trend toward lighter and cheaper materials. Second, through the 1970s the American mills often put their money into the wrong technologies, as they expanded for the boom that never arrived. Third, their wages far outran productivity. Fourth, a new kind of producer known as the minimill has appeared — typically small, specialized

and ferociously efficient; these mills are cutting into some of the big integrated companies' markets. And fifth, the high exchange rate of the dollar makes the imports cheaper and more competitive than ever.

The big American companies argue that, whatever their sins and errors of the 1970s, they are correcting their performance now. By negotiating concessions from the union and by raising their productivity, they observe that they have lowered the labor cost of producing a ton of steel by one-third in the past two years — a remarkable achievement. They are cutting capacity down to more realistic estimates of demand, and they are attacking the technological lags. As for the dollar's exchange rate, that is altogether out of their hands.

From the steelmakers' point of view, the case for quotas is clear and compelling. But Mr. Reagan is required to take a different and broader perspective. He has to take into account the interests of the whole economy, including other American industries that use steel. Import quotas would cut them off from cheaper foreign sources, pushing up the prices of their products. Jobs saved in the steel industry would be lost in the machinery industry.

Mr. Reagan has repeatedly emphasized the importance of keeping the world's markets open. It is a principle that will serve him well this summer in the steel case.

— THE WASHINGTON POST.

Other Opinion

The Central Role of the IMF

Does the International Monetary Fund deserve to be awarded such a central role in coping with international debt as it has been given by the leaders of the seven-nation summit? The decision sounds natural enough, but it is only too consistent with a generalized desire by individual central banks, commercial bankers and governments to shirk off responsibility for painful decisions — or for avoiding them — on to some other body which is accountable to nobody.

— The Times (London).

FROM OUR JUNE 14 PAGES, 75 AND 50 YEARS AGO

1909: Japanese Held in Hawaii Plot

HONOLULU — Seventeen Japanese leaders in a strike of eight thousand workers on the sugar plantations were indicted by the Grand Jury [on June 12] on the charge of having conspired to incite disorder in the Hawaiian Islands. This action followed an official search of the offices of the Higher Wage Association, and of the Japanese newspaper "Jin" revealing incendiary letters, reports and other correspondence indicating a conspiracy among certain Japanese to wrest the control of the islands from the whites. The Grand Jury indicted the Japanese strike leaders after the submission of evidence. The translation of one document reads: "The Japanese strikers are facing the platters with enough powder, lead and food to make victory sure."

1934: Roosevelt Acts to Avert Strike

WASHINGTON — Moving to avert the strike of 100,000 steel workers [set for June 16], President Roosevelt sent to Congress [on June 13] a substitute for the Wagner bill, which would create a conciliation board to make effective the collective bargaining provisions of the National Recovery Act, and give the administration "sweeping power to deal with the threatened situation." The new agency would be empowered to supervise employee elections and its orders would be enforceable in the courts. Violations under the act would be subject to a fine of \$1,000 and imprisonment for not more than a year, or both. The conciliation board would be authorized to investigate practices of employers and employees and controversies arising under the N.R.A.

China Can Muff the Hong Kong Deal

By Frank Ching

HONG KONG — Despite their stated desire to keep Hong Kong stable and prosperous, China's leaders may unwittingly bring about the decline and ultimate collapse of this British colony, now the world's third largest financial center.

For three decades, Hong Kong was an island of political tranquility as China was wracked by political campaigns. The British administration acted as a buffer, and the Chinese, who earn more than a third of their foreign exchange from the colony, were happy with the status quo. However, since Prime Minister Margaret Thatcher visited Beijing in 1982, China has made it clear that it will take over Hong Kong in 1997.

Chinese officials have given assurances that Hong Kong will remain a capitalist society, with the current economic, social and legal system unchanged, for at least 50 years. It sounds good, but distrust of the communists is deep-seated in Hong Kong, where more than half the population fled from the mainland or are the children of such refugees.

Thus, those who have the means have been making plans to emigrate. Many are professionals and other well-educated people with special skills. A mass exodus of capital and talent would cripple Hong Kong. Such an exodus has not begun, but there is a significant outflow.

The fear is that despite pledges of a hands-off policy, Chinese officials will intervene in Hong Kong affairs.

Even those officials in Beijing who specialize in Hong Kong affairs show an appalling ignorance of how a capitalist society works. One senior economist, asked to give an example of the authority of a future Hong Kong government, replied: "It will be able to buy a factory without consulting Peking" (While factories in China are state-owned, in Hong Kong the government is not in the business of buying and selling factories.)

Another Chinese official affirmed

that freedom of the press will be respected in Hong Kong — subject to two stipulations: The name "Republic of China" cannot be used for Taiwan and Chiang Ching-kuo, Taiwan's leader, cannot be referred to as president.

Few newspapers in Hong Kong and elsewhere refer to Taiwan as the "Republic of China" these days. But aside from the Communist press, virtually every newspaper in the world refers to Taiwan's leader as "President Chiang Ching-kuo," a position to which he was recently re-elected.

In late May, an event occurred that shocked Hong Kong. Since 1982, Chinese officials have been saying that Beijing will not send troops to Hong Kong. This pledge was repeated May 21 by Geng Hiao, vice chairman of the National People's Congress, China's parliament. However, four days later, Deng Xiaoping, China's paramount leader, told reporters from Hong Kong that Mr. Geng and others like him had been talking nonsense. Of course troops would be sent.

Mr. Deng's outburst may have resulted from a struggle over foreign policy or from hardliners in the military demanding a role in Hong Kong. Whatever the reason, the result was that overnight a policy devised to lull fears in Hong Kong was reversed.

Hong Kong had become the victim of an apparent internal struggle in Beijing. The news caused the Hang Seng Index, Hong Kong's equivalent of the Dow Jones industrial average, to plunge 30 points. Fears of China's instability and the untrustworthiness of the communists were revived.

China's sensitivity over sovereignty will not allow it to permit an official British link with Hong Kong. Perhaps the only hope now is for Britain to reach an agreement with China spelling out the jurisdiction of

the future Hong Kong government. The agreement should also provide that Hong Kong's status will not be changed without its people's consent.

China's record in honoring international agreements is good. An accord with Britain, announced to the world, is more reassuring than domestic legislation that can be rescinded at will.

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THURSDAY, JUNE 14, 1984

The Misunderstood President

By Norman Podhoretz

NEW YORK — In what is probably a forecast of his re-election campaign, Ronald Reagan worked hard during his recent European trip to dispel the widely held view of him as a "trigger-happy cowboy." Over and over, he proclaimed the sincerity of his devotion to peace; he repeatedly pleaded with the Russians to resume arms control negotiations; and he advanced several conciliatory proposals, including even a pledge to renounce the use of force.

None of this had any evident effect either on the Russians or on President Reagan's critics in the West. Yet having spent so much time explaining to the rest of us why the Russians are right to be provoked when the president of the United States uses language like "evil empire" in speaking of them, Mr. Reagan's critics might at least have taken a minute to say why the Russians refuse to be conspicuously soothed by the honeyed phrases he has now begun to favor.

This is by no means the only puzzle connected with Mr. Reagan's reputation as a trigger-happy warmonger. What is even harder to understand is how he has acquired that reputation in the first place, when he has as

president been cautious to a fault. Is he perhaps considered a warmonger because he has fought to deploy the new intermediate-range nuclear missiles in Western Europe and the MX here? But it was the Europeans themselves who originally requested those missiles and Jimmy Carter who first agreed to supply them; and it was under President Carter, too, that the production of the MX was approved.

Is it, then, the size of Mr. Reagan's defense budget that has made him a warmonger in the eyes of so many? If so, their vision is sharp enough to perceive the difference between a man of peace and a warmonger in the timetables of measures — between the 5 percent increase in defense spending Mr. Carter said he would have budgeted had he been re-elected in 1980 and the 7 percent overall Mr. Reagan is likely to achieve by the end of next year.

As for Central America, there too Mr. Reagan has done little or nothing that was not inaugurated by Mr. Carter. It was Mr. Carter, not Mr. Rea-

gan, who first sent military aid to El Salvador along with about 50 American advisers, the number of which has either gone up or down — does it matter? — by one or two under Mr. Reagan. It was also Mr. Carter who decided to cut off the aid we had been giving to the Sandinistas in Nicaragua.

Mr. Reagan does seem to have gone a bit further than Mr. Carter in supporting the guerrillas fighting against that regime, but on the other hand he does not seem to have increased American support for the anti-Communist guerrillas in Afghanistan or Angola.

The Middle East is an even more striking example. Far from cheating on the issues on which they went to war against Soviet-backed rebels in Lebanon, Mr. Reagan kept pressing for a cease-fire. Then, having sent in the Marines, not to fight but to keep the peace, he withdrew them as soon as they came under serious attack. And having promised to retaliate against Syria for this attack, he no more did than to Mr. Carter before him retaliated against Iran.

The point is not that Mr. Reagan's foreign policy is indistinguishable from Mr. Carter's. It is rather that Mr. Reagan has been almost as cautious as Mr. Carter in the use of force. Surely not even Grenada, where Mr. Reagan did indeed use force, can be described as an incurious operation.

We come back, then, to rhetoric. It is Mr. Reagan's rhetoric, not his record, that has earned him his reputation as trigger-happy. Now he has decided to bring his rhetoric into line with his record. This may be a gain for consistency, but it is also a wan-ton waste of leadership.

Nothing a U.S. president can do in our time is more important than alerting public opinion to the truth about the Soviet Union: It is an evil empire and it does threaten to bully and blackmail the West into political subordination. Insisting on that truth — the same truth Winston Churchill, to his everlasting glory, insisted on telling about Nazi Germany in the 1930s — has been Ronald Reagan's most significant achievement as president, even though he has failed to act adequately on it.

Forgetting the Churchillian role now might help Mr. Reagan win a second term, which he is likely to win anyway. But the cost of this added electoral insurance would be to retard the awakening of the West to the realities of the Soviet threat, thereby robbing him of his greatest historical mission.

The writer, editor of the political journal *Commentary*, contributed this view to The New York Times.

"What can I do?" Mr. Trudeau came to Washington last December and had a long talk with the president. He told Mr. Reagan that he should be proud of his efforts to shore up the alliance and the free-market system. But what the president had not done, Mr. Trudeau insisted, was to communicate his commitment to peace and to the peaceful settlement of disputes in Central America or in the Middle East, and the stalemate between the United States and the Soviet Union was beginning to frighten the world.

He repeated these observations to Mr. Reagan in private letters on May 17 and May 28, and at the same time wrote to Mr. Chernenko on the "necessity of nuclear war," the impossibility of "crisis management" and the dangers of trying to destabilize other countries, or countering on the economic collapse of the West, and finally of extending the nightmare of nuclear confrontation into outer space.

At least Mr. Trudeau made a good try. The last hinting of his 16 years in office may have been his best, even if he struck out. Some of us think he was a good friend. We liked his crusty arrogance and the rose in his lapel. He gave us his truth as he saw it, even if we did not always like it.

EGYPT

A SPECIAL ECONOMIC REPORT

THURSDAY, JUNE 14, 1984

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President Confirms Control of Party, End of Transition

CAIRO — Since becoming president in October 1981, Hosni Mubarak has stressed his awareness of the need for economic improvement and his concern about the average Egyptian's well-being. But, before he could translate words into deeds, the last stage in a peaceful transition of power had to take place.

The process that began immediately after the assassination of Mr. Mubarak's predecessor, Anwar Sadat, culminated in the May 27 parliamentary elections. These have decided who will be Mr. Mubarak's main opposition over the next six years. Having removed men closely associated with Mr. Sadat from the ruling National Democratic Party, Mr. Mubarak now has a firm grip on the party. This should enable him to freely pick the men who will lay the groundwork for the post-transition stage.

The parliamentary opposition, now represented by the New Wafid party, is actually two groups, which historically have not been friends. One is an updated version of the Wafid, which dominated politics before the July 1952 revolution; it is now a heterogeneous grouping of old and young, with a leadership largely reflecting this timely combination. The other group is made of advocates of the Moslem Brotherhood movement.

It is significant that the only party that has won more than 8 percent of the votes, in what the government describes as the first clean and free elections in more than 30 years, are the historical enemies of the post-revolutionary governments. (All the opposition parties, including the New Wafid, charged that the election was rigged.) The Wafid and other political parties existing before the revolution were banned. Moslem Brotherhood members were persecuted during the same period and were eventually forced underground.

But it was the Wafid-Brotherhood alliance that won 58 of the parliament's 448 seats. Three other parties that did not receive enough votes to be represented. They are the Socialist Labor Party, an extension of the extreme-rightist pre-revolutionary Misr al-Fatah Party; the Socialist Liberal Party, a rightist party formed while Mr. Sadat was in power; and the Nationalist Socialist Progressive Rally, grouping leftists of various leanings.

In his last policy speech before the elections, Mr. Mubarak issued a warning to what would later become his opposition. Underlining his identification with the July revolution and its principles, he said in his May 1 address:

"Any backward, outdated trend, not believing in the monumental

achievement of the July 23 revolution, is doomed."

In the same speech, he agreed with his opponents that economic problems should get top priority. That subject will be the first issue discussed by the new parliament, with the government's budget for 1984-1985, expected to be passed before the summer vacation.

Although the fiscal year begins July 1, the outgoing cabinet chose not to send a budget to the parliament before the elections, lending credibility to criticism that the late Prime Minister Fuad Mohieddin's cabinet was a caretaker government that avoided decisions on controversial issues. The cabinet, including the third team in charge of the economy in less than three years, has taken no action on issues involving policy decisions.

From the outset Mr. Mubarak has declared himself against change for its own sake and refused to bow to pressure to specify where he stands on many issues. Unlike Mr. Sadat, he has not painted a rosy picture of the future or promised prosperity soon. He has repeatedly outlined the country's economic ills, backing up his assertions with facts and figures.

The immediate impact of this new approach was appreciation of his serious attitude towards the economy. But that sympathetic reaction eroded slowly as expectations of tangible improvement, based on the idea of facing up to the challenging reality, gave way to mounting impatience.

Sharp drops in income from the country's main economic resources during Mr. Mubarak's first year in power required skilled management. After the Sadat assassination, revenue from tourism dropped, as did remittances from Egyptian expatriates. The following year oil revenues fell sharply.

Meanwhile, tourism and remittances recovered, while Suez Canal income remained stable. The recovery of Egypt's main sources of foreign exchange, particularly remittances, does not, however, ease the vulnerability of the economy, since it depends mainly on these uncontrollable sources of revenue.

During Mr. Mubarak's first year, a relatively detailed five-year plan was devised, marking a return to central planning. Analysts point out that rigid implementation of the plan goes against the *infitah*, or open-door, liberalization measures.

A fierce anti-infitah campaign was begun shortly after Mr. Mubarak became president. The state media railed against opportunists who became millionaires

(Continued on Next Page)



Egyptians at work in an automotive assembly plant.

Economic Growth Rate Keeps Even Pace Despite Problems

By Alan Mackie

CAIRO — Making sense of Egyptian statistics is more an art than a science. The economy has defied the doom-laden predictions of experts too often for a forecaster to put his faith exclusively in logic.

Foreign-exchange earnings have always come to the rescue, whether in the form of higher oil earnings in the boom years of the late 1970s or more recently with the dramatic resurgence of workers' remittances.

The economy has maintained growth rates of 7 to 10 percent when it seemed barely possible.

Yet the underlying dangers facing the economy are as pressing as ever: limited land, a 2.5-percent population growth rate outstripping a 2-percent growth in agricultural production, a weak industrial public sector and an economic base that encourages, through subsidies, unnecessary consumption.

The last 18 months have produced a crop of surprises, prominent among them the government's success in curbing imports. The International Monetary Fund had feared that this achievement would have to be bought at the expense of imported capital goods, but this was not the case. A fairly draconian clamp on luxury imports, together with lower prices on foodstuffs,

helped bring imports down from \$3.6 billion to \$3.3 billion in the fiscal year that ended on June 30, 1983. There may also have been an element of import substitution as local industry geared up more for the needs of the marketplace.

More predictably, given their dependence on oil earnings, exports were down from \$4.07 billion to \$3.3 billion, and the trade deficit rose \$240 million to \$4.77 billion.

The widening trade deficit was more than compensated for by a rise in visible, or merchandise, exports. Thanks to a dramatic upswing after the government allowed public-sector banks to take export-oriented remittances at more parity to the dollar (against an official rate of 84 piasters to the dollar), worker remittances rose from \$2.03 billion to \$3 billion as funds that had come into Egypt through the black market were rechanneled through the banking system.

Net invisibles consequently jumped from \$2.42 billion to \$3.04 billion and the current account deficit — including merchandise as well as nonmerchandise items or invisibles — shrank from \$2.12 billion to \$1.73 billion.

After allowing for \$4.09 billion of capital inflows (of which \$1.75 billion was foreign aid and \$650 million direct investment) and after

deducting outflows including \$1.73 billion of debt repayments, the overall balance of payments was in surplus by \$890 million.

The progress for this year is for a further improvement. Net revenue from oil at \$2.13 billion is expected to be unchanged from 1982-1983 (exports last year were \$2.51 billion) and cotton sales should improve on last year's \$314 million after a good selling season.

(Continued on Next Page)

Synergism

Oil Industry Maintains Steady Growth

CAIRO — Egypt's oil industry is relying on sound management and a proven record of fair dealing with foreign oil companies to see it through a difficult prospecting patch and to offset circumstances created by the world surplus and the threat posed to foreign exchange earnings by the sharp rise in domestic consumption.

It has not been an easy year for oil producers; the recovery in spot prices after the slump in 1982-1983

has been fragile. But Egypt has been relatively lucky. Demand for its heavier sulfurous crudes has kept up better than for sweeter, lighter blends, and its astute marketing — Egypt, with relatively little to export, is not a member of the Organization of Petroleum Exporting Countries — has cushioned the drop in revenue.

A steady 14- to 15-percent annual rise in domestic consumption over recent years has finally caught

up with export earnings, however.

Net oil exports for the year through June will be held at the 1982-1983 level of \$2.23 billion, but they are expected to dip to \$2.01 billion in 1984-1985 and thereafter decline sharply until Egypt ceases to be an oil exporter in the early 1990s.

The fall in oil prices and the inexorable rise in domestic consumption have highlighted the fact that production is reaching a plateau from which it will be difficult

to rise without substantial new finds.

Production of oil and gas has

been increasing steadily in recent years.

This year it is expected to reach 42.4 million tons from the 1982-1983 level of 36.7 million tons.

Production is now 90,000 barrels a day, of which oil accounts for 80,500 barrels and gas 9,600 barrels of oil equivalent.

This suggests that the coming

(Continued on Next Page)

U.S. Ties Remain Close But Tone Is Different

By Bernard Gwertzman

WASHINGTON — It was perhaps inevitable that, after the assassination of Anwar Sadat in 1981, Egyptian-U.S. relations would begin to fray. And they have, even though the fabric of the relationship as a whole is still valued by both sides.

Mr. Sadat, whose bold moves in search of peace with Israel made him a hero to many Americans, was a unique Arab leader. He put his ties with Washington ahead of his standing in the Arab world. Hosni Mubarak, the trusted vice-president who replaced him as president, is a markedly different person from Mr. Sadat and this has had its effect on Egyptian-U.S. relations.

Although Mr. Mubarak has maintained Egypt's support for such milestones as the Camp David accords of 1978 and the Egyptian-Israeli peace treaty of 1979, he has done so without the enthusiasm often displayed by Mr. Sadat. Mr. Mubarak gives the impression of being considerably less emotionally involved in those agreements with Israel, but at the same time he is careful about not going so far as to abrogate them.

This has created the paradox in Washington of aid for Egypt being continued at very high levels, but

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	1982	1983
LOANS	242.1	375.8
TOTAL ASSETS	674.7	787.5
CUSTOMERS DEPOSITS	534.9	533.3
TOTAL DEPOSITS	565.8	641.4
NET WORTH	52.5	67.5
NET PROFIT BEFORE TAXES	26.1	32.5
PROVISION FOR TAXES	9.3	13.5
NET PROFIT AFTER TAXES	16.8	19.7

FIGURES ROUNDED TO U.S. MILLIONS

The Chase National Bank (Egypt) S.A.E.



Picking cotton: A report on agriculture appears inside.

(Continued on Page 12)

A Cautious Approach Begins To Work for Mubarak as Vote Consolidates Party's Power

By Alan Mackie

CAIRO — President Hosni Mubarak will be facing some delicate decisions after last month's parliamentary elections and the sudden death June 5 of Prime Minister Fuad Mohieddin. The elections, which eliminated all other opposition groups from Parliament except the Wafid, which won 57 of the 448 parliamentary seats, established the ruling National Democratic Party (NDP) securely in power.

But in the welter of recriminations and accusations of vote rigging and manipulation, the popular mandate for change that Mr. Mubarak had been seeking may have eluded him.

The death of Mr. Mohieddin, who as secretary of the NDP as well as prime minister was widely blamed for election irregularities, has made easier the cabinet reshuffle that some felt was imperative if Mr. Mubarak was to seize the opportunity offered by this natural turning point to help Egypt embark on an era of belated economic and political reform.

The president, however, is a cautious man. Only now, nearly three years after the assassination of Anwar Sadat, is Mr. Mubarak's Egypt beginning to acquire a personality of its own. The change has been most noticeable in foreign affairs, where his adroit handling of U.S. congressional groups pressuring him to improve relations with Israel has won him respect and independence without jeopardizing the \$1 billion of civilian aid and \$1.3 billion of military assistance the United States annually provides.

At the same time this has given Mr. Mubarak the space to begin rebuilding a more normalized political situation, which has helped in his rehabilitation with the Arab world.

After gaining readmittance to

the Islamic Conference, the lack of movement in being invited back into the Arab League is disappointing. But business ties with the Arabs are improving, and Egypt has taken steps independently to improve relations with Iraq and Jordan and has participated in international efforts to ease Middle East tension and mediate in the Iran-Iraq war.

Mr. Mubarak is well aware, however, that his foreign policy achievements mean little if he does not make his mark at home, and here his touch has been less sure. It must be said that he has been preoccupied with security and, especially, Islamic extremism. As one adviser said: "He is not a learned person. He is learning every day and he will not move forward before he is ready. He is playing safe for Egypt. He has his own plans and theories but is waiting for the right time to implement them."

Mr. Mubarak has consciously set out to win back the disaffected constituency of low-paid public sector workers and the other have-nots that Mr. Sadat lost in pursuing his controversial foreign policies. He has renewed commitments to central planning, to building up the private sector and leaving the private sector in areas not deemed of strategic economic necessity to the country (though the private sector is expected to contribute 25 percent of planned investments of \$4 billion Egyptian pounds under the five-year plan).

The current five-year plan has become the talisman for Mr. Mubarak's economic policy. Unlike in the Sadat era, when the president's whim for a particular project could throw out carefully made budget projections, Mr. Mubarak makes no exceptions. The emphasis is on getting as much productive capacity into operation as quickly as pos-

ible by reducing aid pipelines and encouraging local production. The average 8.1-percent growth rate envisaged in the plan is ambitious, and Egypt may be lucky to achieve a growth rate of 5 to 6 percent a year over the next three years.

The foundations of recovery are being laid. The large inflows of aid in the 1970s are being translated into power stations, cement plants and other productive capacity and infrastructure projects that are beginning to ease the lot of the average Egyptian. In the first two years of the plan, which runs until 1987, 320,000 housing units were built.

After a number of false starts, the building of the Cairo subway system is moving ahead, while work on the city's waste-water project should begin soon now that the legal and bureaucratic tangles have been sorted out. For many Egyptians, the speed and efficiency of the army in installing telephones, building roads and repairing sewage systems — all well under half the cost of civilian contractors — has been a major revelation.

The steady improvements in agricultural production continue despite problems with salinity, and the greening of the desert proceeds in areas where water is easily available. Industrial production is beginning to meet some of the needs of the local market but a great deal more needs to be done before Egypt can be really competitive in world markets.

Foreign investment from all sources continues to flow at \$600 million a year. The grandiose designs of the 1970s have given way to more modest plans. The minister of investment affairs and foreign cooperation, Wagih Shindy, said investment procedures had been streamlined, although foreigners report some frustrations and delays.

(Continued on Page 12)

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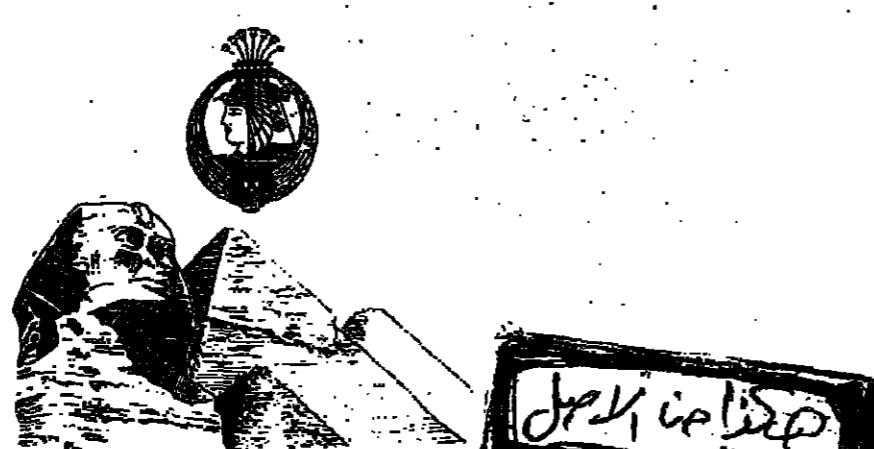
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EGYPT



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Nuclear Power Plans Get Green Light

CAIRO — Egypt's ambitious nuclear power generation program is finally taking off.

The country tried 10 years ago to acquire sophisticated hardware for what would have been a relatively modest three plants with total capacity of 1,800 megawatts. This approach was met with a cold response from the United States, which was reluctant to offer financial aid for the project and made consideration of Egypt's request conditional on its signing the nuclear nonproliferation treaty. Washington also sought a bilateral agreement committing Egypt to using nuclear power for peaceful purposes only and agreeing to regular inspections.

Now Egypt has signed the international treaty, made separate agreements with the United States, France and West Germany for providing the know-how, and incorporated the first phase of the nuclear program into the 1982-1987 development plan. It envisages building six or eight plants with total capacity of more than 8,000 megawatts by the turn of the century, with construction on the first two plants to begin in the next two years.

The program's cost, more than \$50 billion at present prices, will be a long-term burden on the economy. But policy-makers say the time

has come for Egypt both to save its limited oil reserves and to increase its oil exports to help offset its trade deficit. The country now uses more than \$1 billion worth of oil and natural gas to produce electricity.

An additional \$1 billion is added to the government's electricity bill through the subsidization of energy rates, which encourages more Egyptians to acquire air conditioners and video sets, raising the consumption of energy by a staggering 15 percent a year. Major industries also contribute to the rising demand, with public-sector industries using one-third of the country's output, preventing a few remote villages from having electricity extended to them.

The impact of the recent world oil surplus and resultant price reductions held up a special fund to finance the nuclear program; it was to be funded by returns from oil exports. Most of the financing in any case will have to come from overseas in the form of long-term loans. Egypt has demanded that companies bidding for the nuclear plants couple their technical credentials with a financial package, which will be a key factor in determining the choice of builder. This has been a difficult condition for the companies to fulfill; the U.S. Export-Im-

port Bank turned down a Westinghouse request for financial backing.

The bilateral agreements on the use of the plants, along with the financial agreements, have limited the number of companies bidding for the first plant to four: Westinghouse, Bechtel, West Germany's Kraftwerk Union and a French-Italian consortium led by France's Framatome. A Swiss firm is assessing the bids, opened last fall, for the plant to be erected in Dabaa, 100 miles (160 kilometers) from Alexandria on the Mediterranean coast. Construction is to start this year, with the 1,000-megawatt plant to begin operating in seven years.

Arrangements for supplying uranium have been made with Australia and Niger. Little has been done

to enable Egypt to tap its own rich deposits near the border with Sudan and in some parts of the eastern and western deserts. The feasibility of mining these reserves is being assessed. It seems likely, in the absence of concrete plans for developing these resources and considering the political sensitivity involved in acquiring the technology needed, that Egypt will remain dependent on foreign uranium for the foreseeable future.

Problems are also anticipated regarding the extent of non-Egyptian involvement in operating the sophisticated imported technology, how safety requirements at the plants can be satisfied and where the nuclear waste will be dumped. Meanwhile, Egypt will continue to add to its capacity of the cheapest form of power generation, hydraulic power, which will be the base for power generation in Egypt until the nuclear program is well under way. With a dozen new turbines, the Aswan High Dam built by Soviet experts in the early 1960s has got a new lease on life. This, along with the new Aswan-2 power station scheduled to start producing in a year, and a number of other projects on the Nile, will increase Egypt's power production capacity by the end of next year.

What would have been the largest hydroelectric power generation project in the region, and one that

would have provided an alternative to the nuclear program, appears to have been shelved for a number of reasons, including a high initial investment. The latest estimates for producing electricity through extending a canal from the Mediterranean Sea to the Qattara Depression in the western desert have been put at more than \$5 billion,

and the project would have taken 14 years to put into effect.

— OLFAK TOHAMY

President Confirms End of Transition

(Continued From Previous Page)

overnight. Many proponents of the Sadat measures warn that the media stories create a poor image and threaten the policy of *infatia*. The chairman of the Misr Iran Development Bank, Fouad Sulten, said: "Those who used to criticize Sadat and say that he was running a one-man show now appreciate the wisdom behind the policy that has induced Egyptians to repatriate more funds than before. The banking system's foreign assets have risen sharply. We now have a solid base for *infatia*, and Mubarak is investing in valuable assets that he has inherited from Sadat."

Another expert who defends some of the late president's policies is Abdel Razak Abdel Meguid,

who was regarded as Mr. Sadat's economic strategist. He was deputy prime minister for economic affairs under Mr. Sadat, as well as his son.

Mr. Mubarak first took over, pointing to the slowdown in economic growth. Mr. Abdel Meguid said: "The only way to reform is through confronting the issues of wages, prices and the public sector. The three years we have lost will be hard to make up for."

Describing as "witch-hunting" the widely publicized trials for corruption, including that of Mr. Sadat's brother, Esamat, Mr. Abdel Meguid claimed: "No witches were really caught, but the hunt continues with the aim of frightening decision-makers and preventing them from making decisions."

The investigations have been conducted by

the Socialist prosecutor general and the trials were at the Court of Ethics, both of which Mr. Mubarak inherited from Mr. Sadat.

Mr. Mubarak has often denied that he is against the growth of the private sector the way Nasser was.

But he has been giving private entrepreneurs confirming signals. They are encouraged by the present five-year plan — which has private investment accounting for one-fourth of total investments — but are bothered by measures adopted under Mr. Mubarak that limit imports through raising customs duties and interest rates on bank credits for imports. A new tax law has added to private investors' burdens.

The future of the huge but weak

public sector, and of the system of

government subsidies on goods and services accounting for an amount equal to the total budget deficit, are among issues awaiting action. The lifting of subsidies on goods including bread led to riots seven years ago. Hesitant moves have been taken to reorganize the public sector and manage it efficiently with less government intervention. But the government has been reluctant to phase out certain subsidies and has not acted on its decision to raise slightly the prices of bottled gas and gasoline.

Another politically sensitive area is that of the management of the foreign debt. It is now close to \$20 billion, and the five-year plan envisages greater reliance on foreign loans and aid.

— OLFAK TOHAMY

Oil Industry Maintains Steady Growth

(Continued From Previous Page)

fiscal year's target of 45 million tons will be exceeded, but it will be well into 1985-1986 — when gas production will double — before the target of one million barrels a day, or 50 million tons a year, which has been eluding Egypt's petroleum planners for the last five years, will be finally hit.

Exploration and development have produced a crop of disappointments over the last two years. Most of the finds since 1981 have been small, well within the 50-million-barrel range, which offshore are too small to exploit. And the exciting finds of 1980-1981 have not lived up to their initial promise.

Belayan Petroleum Co., or Petrebel, is looking for 120,000 to 140,000 barrels a day from the Belayan field on the east coast of Sinai, where there had been hopes for 200,000 barrels a day. British Petroleum's find at Zait Bay north of Hurghada is being developed for 100,000 barrels a day when some oilmen had hoped for twice that.

Soco, the production venture of the Dennerix-BP-Shell consortium and Egyptian General Petroleum Corp. (EGPC), has had to lower its sights on the Ras Badran field near Abu Rudeis on the east coast of Sinai from 50,000 barrels a day to 30,000, and investigation of the Gaysum field near Zeit Bay convinced Mobil that there was no future in developing it further.

This last field had initially held out great promise but it was always difficult, a shallow pay zone over an extensive area, and further tests have shown it to be less than 500 million barrels.

Conoco has taken over the concession, however, in the belief that production is viable. Conoco has sunk \$300 million to \$600 million into drilling and exploration contracts in Egypt without having come up with any oil, and the acquisition of the Mobil concession may have been partly to buy something to show for this huge commitment. As the stakes get higher, and oil fails to materialize, some prospectors are beginning to get cold feet.

Yet EGPC, which manages exploration and production for Egypt's oil industry, has been remarkably successful in keeping prospecting interest alive. Thirteen

new agreements were signed in this financial year, four are before the cabinet and, according to the oil minister, Ahmad Ezzeldin Hilal, 15 are under discussion. The oil companies are committed to spending \$1.6 billion, a slightly lower figure than in the previous year.

So high has the interest been that EGPC has been able to be selective in awarding concessions, taking into account the track records of the exploration companies and the quality of the technology they bring in.

The Gulf of Suez remains the principal prospecting area but the net is being spread wider. The Red Sea region is becoming popular; two new concession blocks south of Hurghada are arousing intense interest, while exploration activity in the Sinai peninsula will increase as IEDOC, Conoco and TOTAL begin prospecting in earnest; exploration is also to begin in northern Sinai and along the Mediterranean coast.

An intriguing development has been the rehabilitation of the western desert, which a few years ago was being written off as virtually a dead loss. Shell has returned after relinquishing its concession there and is now producing oil at Badr el-Din. Two further concessions have been signed and another is on the books.

The western desert has been virtually unexplored, but substantial improvements in geophysical definitions are making it less of an unknown quantity.

A principal reason for the high level of interest in exploration in general is the success the producing companies are having in finding new oil in the existing fields. The complex geology of the Gulf of Suez and its multiple pay zones have produced surprises significantly extending the lives of the existing fields, according to C.M. Carr of Amoco, the joint-venture partner with EGPC in Gulf of Suez Petroleum Co., or GUPCO, which produces most of Egypt's oil.

Morgan, the oldest and most prolific of the fields, has, by dint of water and gas injection programs, managed to increase production to almost 200,000 barrels a day. A new gas injection program is at the design stage and expected to be started in the second half of next year. The July field is producing 70,000 barrels a day, well below its peak of 180,000, but improved re-

covery systems are increasing reserves. Mr. Carr said: The newest field, October, producing 109,000 barrels a day, is in the middle of a large gas lift project to be completed next fall. The Ramsadan field is producing a steady 90,000 barrels a day.

Egypt's conservative reserve estimates give added credibility to its production projections. These are now 4.8 billion barrels, the oil minister, Mr. Hilal, said: about 3 billion barrels of oil and about 1.8 billion of oil equivalent gas. EGPC will be undertaking a comprehensive review of gas reserves over the next three years to see how far

11,000 billion to 12,000 billion cubic feet of recoverable reserves are exploitable; now they amount to only half this figure.

Gas clauses are now written into all agreements. But the problems of exploiting it in the absence of a comprehensive gas map have made operators reluctant to explore enthusiastically.

Natural and associated gas are produced from three main regions: the delta, where production at the coastal fields of Abu Madi and Abu Qir is to be doubled — their natural gas feeds the Alexandria hinterland; the western desert's Abu Gharradiq field, which supplies the Helwan industrial complex south of Cairo; and Ras Shimaq on the west coast of the Gulf of Suez.

There are plans to enlarge the Ras Shimaq plant that gathers gas from the Gulf of Suez oil fields for piping to Suez, where it serves local industry, and then down to Cairo. In addition there are plans to tie in associated gas from the Belayan field, and new gas fields at Abu Siman and Badr el-Din will be fed into the Abu Gharradiq network.

Liquid petroleum gas is produced at Ras Shimaq. The expansion of the Abu Madi and Abu Qir plants will make feasible LPG production from their condensate-rich gas. Mr. Hilal said he hoped Egypt would be self-sufficient in LPG within the next few years.

The burgeoning domestic market and the development of local feedstocks from associated gas have revived plans for a small petrochemicals industry. Technip of Italy is the main contractor for a \$120-million complex to be commissioned in late 1986. Mr. Hilal pre-

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ALAN MACKIE

EGYPT

In the Banking Sector, Positive Signs . . .

CAIRO — Egypt's banking system is adapting to the slowdown in the economic growth that provided the impetus for more sophisticated and diversified services.

The more modest but still relatively high rates of growth over the last two years have produced a number of changes in conditions and a shift in the official attitude toward the banking system, reflecting a stringent monetary policy. A new phase in the development of the financial sector started with a decision two years ago to freeze the number of banks operating in Egypt at the present total of 99, and to fight inflation by curbing increases in the money supply and setting a scale for interest rates on loans. The interest rate scale was intended to limit the growth of trade and orient funds toward commodities and medium- and long-term investment.

As part of the policy curbing the banking sector's growth, the amount of money bank could lend was limited to 65 percent of its asset deposits. But a recent surge in deposits, reflecting a healthy increase in savings, has led to a strengthening of the banks' financial position by adding to the supply of funds available for lending and investment. The increase, averaging more than 25 percent since the squeeze was enforced two years ago, was mostly due to a steady rise in remittances from Egyptian expatriates and a slower growth of domestic private consumption.

Another positive move was that the interest rate on local-currency deposits was raised. As a result, these deposits grew more than three times as much as foreign-currency deposits (mostly dollar-denominated), thus helping to strengthen the Egyptian pound.

Despite pressure on the trade-oriented private sector, the higher interest rates on lending for trade — 16 percent or more — have had

only a modest impact on the banking sector's preference for trade.

The slight drop in private as well as public demand for borrowing to finance trade and services was coupled with an almost negligible increase in credit to the commodity sector, again indicating slight progress in the government's attempt to shift credit away from trade. The success in bringing the overall budget deficit under control, however, starting from the fiscal year 1982-1983, meant that the burden on the banking system for making up the deficit was considerably lighter.

The result of prevailing economic trends is a steady increase in public-sector commercial banks' assets of 15.8 percent in 1982-1983 and an increase of private commercial banks' assets of 23 percent, against 31 percent and 102 percent, respectively, during the year before the streamlining measures went into effect, 1981-1982, according to the latest Central Bank report. With minor exceptions, the balance sheets of public and private commercial banks showed net profits ranging between 15 and 20 percent last year — satisfaction by normal standards but minimal compared to pre-1982 rates, which sometimes exceeded 100 percent.

Most local and foreign bankers agree in retrospect that the freeze on new banks was timely. The slowdown in demand after the streamlining, bankers said, justified the government's action in improving the number of banks.

With demand for short-term loans shrinking, "those who were skeptical about the ability of the Egyptian economy to generate foreign-exchange assets to repay loans, while the balance [of interbank operations] with the Euro-market was growing, have started funding short-term on a competitive basis, then began stretching maturities and lending on the medium-term and through syndication," said Fouad Sultan, chair-

man of Misr Iran Development Bank. He pointed out that with an estimated \$8 billion available to the banking system, against \$200 million seven years ago, these banks can easily use 20 or 30 percent of these assets for extending term loans. He described the process as the "normal evolution" of a system that has witnessed a sudden growth that took time to assimilate.

The increase in local and foreign funds available for banks to lend — partly due to the slackening demand on credit, the ceiling on lending and the overall rise in deposits — has led to a surge in interbank dealings and an outflow of foreign-currency assets invested by banks in the Euromarket. The consensus among bankers, however, is that this situation has had the positive effect of not only increasing the propensity for term-lending, but in particular promoting a readiness for syndication uncommon to the Egyptian market.

In the biggest syndication to date in Egypt, a public-sector bank is pushing ahead with a deal that seems likely to set a precedent. The National Bank of Egypt, the largest publicly owned financial institution, is lead-managing a \$240-million syndication totally covered by local banks for the new Alexandria iron and steel plant.

The current trends are challenging the professional capabilities of the newer banks, which stepped in during the boom years but are now finding it difficult to adjust to rationalized rates of return and increased competition for quality service. With some smaller banks showing signs of strain, a strengthening of Central Bank control seemed a logical step to prevent the deterioration of standards. Central Bank regulations were thus amended last spring.

"Before it was either an insignificant fine or threat-cutting, which we have never resorted to because it

was inconceivable for us to close a bank," said Ali Negm, deputy governor of the Central Bank. The range of alternatives for legal action, formerly either a simple warning or withdrawal of the bank's license, now includes four steps in between. Another significant amendment changed the Central Bank's board to include two private or public bank chairmen, a representative of the business community, representatives of the ministries of planning, finance and economy, and the chairman of the Capital Market Authority.

Another measure taken last spring, which has temporarily confused the banking and business communities, was adding a new exchange rate for the Egyptian pound to at least four other recognized rates. The new rate of 1.12 pounds to the dollar was offered for remittances transferred by Egyptian expatriates through banks. Other rates include 0.40 pounds to the dollar for intergovernmental deals based on trade agreements, 0.70 pounds to the dollar for government imports and supplies, and an incentive rate of 0.84 pounds to the dollar for most other transfers of the private local and foreign sector. The fluctuating black market rate is about 1.24 pounds to the dollar.

The new rate was "simply another attempt to attract more funds from remittances and tourism," Mr. Negm said. The aim was to enforce "an amendment to regulate the banking and not a change of the currency rate," said the minister of economy and foreign trade, Mustafa El-Said. The new rate, officials say, is the incentive rate of 0.84 pounds to the dollar plus a premium at a rate set periodically by the Central Bank that is intended to discourage transfers to the flourishing black market, which has an estimated total volume of more than \$3 billion.

— OLFACT TOHAMY

... And Moves to Restore Standards

CAIRO — The Central Bank of Egypt, backed by the government, is stepping in to prevent a number of private banks from collapsing and, thus, restore the standards of banking, which have suffered lately under the pressure of fierce competition.

As a result of recent amendments to the Central Bank's regulations, effective control over the operations of all banks has been boosted. The Central Bank was previously empowered to withdraw a bank's license or levy an infringement fine, but now has a wider choice in dealing with lawbreakers. It may start by warning against further offenses, reducing or halting credit facilities offered to the bank, restricting its operations or setting a limit to the amount of credit it can offer.

It can also order a bank to deposit its assets with the Central Bank free of interest, require the board to meet in the presence of a Central Bank representative, or dissolve the board and appoint a Central Bank agent to oversee operations until a new board is appointed. In extreme cases, such as bankruptcy or the adoption of a policy judged as contradictory to the common interest, the Central Bank can withdraw a bank's license.

The amendments include provisions preventing banks from lending to board members directly or indirectly, and restricting any single customer from receiving loans amounting to more than 25 percent of the bank's paid-up capital. The Central Bank is also now legally

responsible for approving appointments for board membership, and it is allowed to recommend to the minister of economy the cancellation of such appointments.

The Central Bank has applied the new rules to the case that triggered the review of banking regulations. Jammal Trust Bank, the branch of a foreign bank owned by Ali Jammal, a Lebanese multimillionaire, was the center of a \$22-million operation involving three other banks. The sum was the amount of postdated checks drawn on the bank, which were cashed by Faisali Islamic Bank, Egyptian Arab African Bank and Al Ahram Bank. Jammal Trust refused to guarantee payment of the amounts cashed to these banks.

The case is being untangled by the Central Bank agent appointed to supervise operations on behalf of the dissolved Jammal Trust branch. Mr. Jammal was placed under house arrest. He has claimed that the operation was carried out without his authorization.

Al Ahram Bank, the weakest of the three banks involved, was threatened with bankruptcy for several weeks, but Central Bank sources say it has started to recover. Attempts to bail out Al Ahram and Jammal Trust have met with difficulties because the former made loans without proper collateral, and the latter's three branches had offered individual clients loans exceeding 25 percent of capital.

Other banks' eagerness to maintain the standards their fear of a

possible spillover effect of a similar operation and the overriding concern about the reputation of the Egyptian financial community meant that moves to strengthen the Central Bank were largely welcomed. Its marked reluctance to adopt extreme measures to punish the banks involved in the Jammal Trust case relieved fears that its added prerogatives would mean overregulation of banking activities.

The 20 branches of foreign banks operating since they were allowed admission nine years ago feel somewhat more vulnerable than their counterparts who have formed joint-venture companies with one of the four publicly owned banks. The joint-venture operations — there are 10 of them — are not legally protected by their Egyptian sponsors, who hold 51 percent of the bank's shares. These banks are considered autonomous entities, with their boards responsible for their performance. Egyptian sponsors admit, however, that they feel morally committed to their joint ventures with foreign banks and sometimes support the bank that partly carries their name.

Evaluating the National Bank of Egypt's experience with foreign partners, Mahmoud Abdel Azz, board member and general manager, minimized the importance of competition with the public-sector banks, which had dominated the scene for the previous two decades. The fact that the new banks were beginning operation at a time of unparalleled growth and in a large

ly free market meant that they could make net profits exceeding 100 percent, Mr. Abdel Azz said. Access through established partners to foreign markets — yet unknown to Egyptian banks — was the main advantage of the new system, he added.

Mr. Abdel Aziz also said that the joint ventures, as well as the branches of foreign banks, had to a great extent succeeded in attracting foreign capital assets from foreign as well as Egyptian sources.

The 20 branches of foreign banks, operating only in foreign currency free-of-exchange controls, are often charged by the state-run press with being vehicles for capital outflow. But "this is an unfair statement because the public-sector banks, too, have deposits, which they have to invest abroad . . . Even the Central Bank does it," said Hoda Hammam, vice president at Citibank's Cairo branch. Adding that the branches are not immune to local or international interbank dealings, which have been increasing recently, Mrs. Hammam said that Citibank's loans were almost equal to its deposits and that the bank had joined in or arranged important syndications.

The volume of foreign-trade financing, Mrs. Hammam said, remains relatively large, but "this is our bread and butter." Enumerating substantial public-sector projects to which the bank has provided credit, Mrs. Hammam pointed out that, contrary to commonly held beliefs, the bank favors dealing with the government because "it is the most secure borrower in Egypt."

This seems to confirm the view

that the joint ventures and branches complement rather than compete with the publicly owned conglomerates, which control 41 percent of the banking system, with their deposits growing at a pace twice as quick as that of the other banks. Despite the fact that the market has been open for private and foreign banks to operate over the last nine years and that their generally well-equipped offices seem attractive, the majority of Egyptians prefer the Egyptian banks. One main reason is that, while some of the foreign banks and the joint-venture banks have branches in some major cities, the National Bank of Egypt has a network of more than 160 branches throughout the country, and Bank Misr has about 300 branches in cities and towns. Moreover, with their long experience and strong base they are able to offer a wider range of services and instruments in local and foreign currencies.

Last spring's attempt to boost transfers from Egyptian expatriates through setting yet another exchange rate for the pound against the dollar has had a tangible yet minimal impact on these transfers, which are confined to the four public-sector banks dealing with certified exchange bureaus in Gulf countries. The four banks collected \$20 million during April.

The Banque du Caire is the only Egyptian public-sector bank with branches in the Gulf, including the locally incorporated Cairo-Saudi bank, which is spread all over Saudi Arabia. Fouad Salem, general manager of one of its main Cairo branches, said that the Cairo-Saudi Bank provided two-thirds of the foreign-capital transfers made to his branch. He believes that the new exchange rate could further improve the public-sector banks' capacity to attract foreign assets and reduce reliance on their foreign counterparts.

— OLFACT TOHAMY

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US \$
(in thousands)

	1983	1982
Balance Sheet, Total	376,011	282,208
Equity (Capital & Reserves)	24,443	22,734
Customers Deposits	231,507	147,873
Loans & Advances	136,805	93,630
Portfolio Investment	5,305	4,819

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EGYPT

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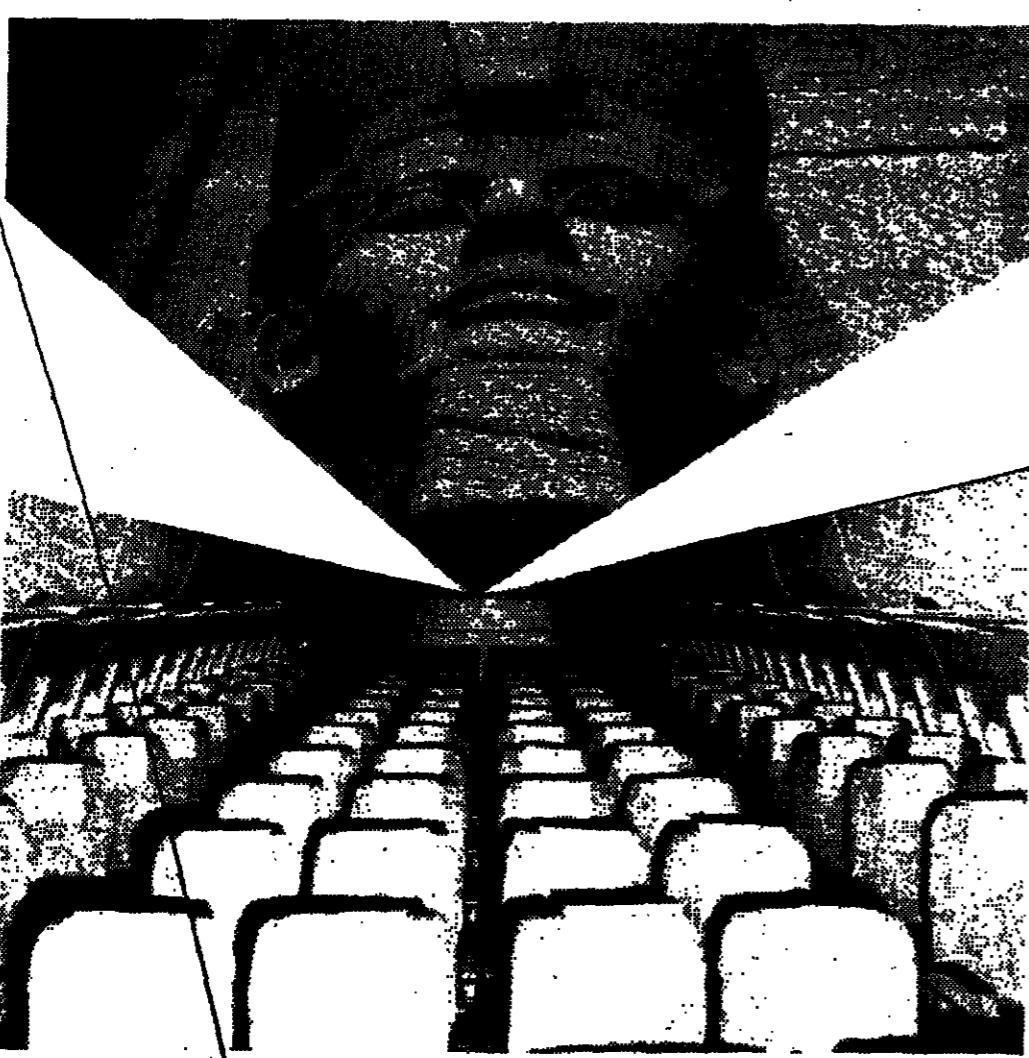
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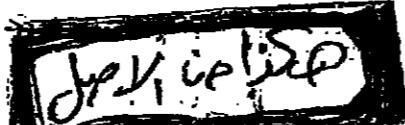
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EGYPT

Rising Deposits Boost Demand For Specialized Bank Services

CAIRO — Financial firms are sprouting in Egypt to cater to the pressing need for investment banking, but only a few seem equipped to capitalize on the increasing demand for specialized banking services.

The latest figures indicate that a new phase of growth has started, building on the high returns of the boom years of the late 1970s. Remittances from Egyptian expatriates and private savings are rising. The result is a 20-percent net increase in the banking system's assets. Deposits, representing two-thirds of these assets, contribute to the high rates of liquidity, favoring moves toward investment.

Faced with this wave of capital inflow and highly liquid assets, the banks could not resist extending the maturities of loans to private investors and indulging themselves in direct participation in various projects. The ceiling imposed by law on the amount of credit banks can offer — 65 percent of deposits — has added to the pressure on banks to open new channels for the extra funds.

With the boundary between commercial and investment banking blurred in Egypt, almost all of the country's banks — 4 publicly owned commercial banks, 39 private local banks and joint ventures between the public banks and foreign banks, 20 foreign bank branches and 10 companies registered with the Central Bank of Egypt as merchant and investment banks — are seeking to diversify their portfolios by raising their direct participation in ventures. This has meant overexposure for some

smaller, basically privately owned banks geared to commercial banking.

A case in point is Delta International Bank, whose investment portfolio includes a five-star hotel, a skyscraper and tourism projects. The leading weekly Al Abram Al Iktissadi, reporting on the bank's annual meeting, said a consulting firm and a trading company in which the bank's participation amounted to more than one-fifth of the capital had incurred losses exceeding the project capital. In addition, the Semiramis Inter-Continental Hotel and the Cairo Plaza office complex, in which the bank has participated or contributed loans, are facing serious delays in their completion. The bank also had to inject funds into the Al Alamein Gardens Hotel company, the weekly reported.

Companies registered and operating mainly as investment banks have adopted a more cautious attitude toward the market and a better financial appraisal of projects in which they have participated. Misr Iran Development Bank and Arab Investment Bank are among the most successful specialized firms in development finance.

Individuals have tended over the last few years to form what they call investment companies, grouping small and medium-size investors who may have made their fortunes in the Gulf and have persuaded Arab friends to form a company. Without aspiring to match the standards of banks, these companies seek to invest funds with a minimum reliance on expert advice. Their capital ranges from \$1 million to \$5 million in most cases. As they seek quick re-

MIDB's chairman, Fouad Sultan, said the bank had the last word on financial assessment of all the projects it is involved in. He added that the bank had a pioneering role in projects aimed at developing financial services and developing the capital market in Egypt, including Misr Investment Finance Co. and the bank's subsidiary Misr Finance Co. for construction and building materials. The bank is adding a unit for acquisitions, and Mr. Sultan is leading a group of financial experts promoting the idea of leasing. He said he hoped a law allowing leasing would be enacted before the end of this year.

AlB has been growing steadily during the last five years, focusing on housing projects. It provided one-third of the capital for development of a suburb south of Cairo and participated in the formation of the Housing and Development Bank.

AlB, which has a consulting subsidiary, is seeking to diversify by branching into acquisitions, and is moving outside Egypt to attract more Arab funds, said the chairman of the bank, Fouad Hashem, former minister of the economy.

Individuals have tended over the last few years to form what they call investment companies, grouping small and medium-size investors who may have made their fortunes in the Gulf and have persuaded Arab friends to form a company. Without aspiring to match the standards of banks, these companies seek to invest funds with a minimum reliance on expert advice. Their capital ranges from \$1 million to \$5 million in most cases. As they seek quick re-



Inside the Chase National Bank in Cairo.

tunes, these companies often fall into risky ventures, such as real estate speculation, and often incur heavy losses.

"This is an individual rather than a corporate society, and it is hard to imagine how many individuals can put more than five million pounds in a project in the absence of public underwriting or an active securities market," said a financial consultant, Ahmed Foda. He said he sympathized with the small-scale, private-sector orientation, pointing out how few projects capitalized at more than \$50 million are wholly sponsored by private investors.

"Whether we like it or not, we are at a stage where the whole economy is unable to digest or manage projects of that magnitude," he said. Many el-Emery, managing director of the Arab Investment Group, seems to have more faith in the

Egyptian economy's ability to fund big projects. He is adopting a more aggressive attitude toward the possibility of mobilizing funds on a large scale. The group, formed by Egyptian expatriates with Saudi, Bahraini and Jordanian partners, is beginning its operation with concerted efforts to draw more capital from Egyptian expatriates, using the group's expertise and contacts to direct it, Mr. Emery said.

"We have brought to the market professional standards that were previously unheard of," he said, pointing out that the recently formed company provides, in addition to technical advice, such services as syndication, acquisition, portfolio management and arrangements for issuing securities. It has completed the first major acquisition operation in Egypt: The Bank of Credit and Commerce of

Egypt was merged into a joint venture with private Egyptian capital.

"They are ahead of their time," said the deputy governor of the Central Bank, Ali Negm.

"We see a tremendous need for investment banking services," Mr. Emery said, "and we are at least 10 years behind Arab markets and 20 years behind international money and capital markets."

A new trend in investment banking is slowly emerging, with Islamic banks providing various forms of financial packaging and equity participation unknown to conventional Western bankers. Based on the resurgence of Islamic principles and the ban on fixed interest associated with Islam, this variation on investment banking seems to be gaining popularity in Egypt.

— OLAF TOHAMY

Series of Steps to Strengthen Capital Market Appears to Work

CAIRO — A number of positive developments seem likely to lead to a strengthening of the oldest capital market in the region, which will celebrate its centennial soon.

By the number of companies registered and the value of securities available for trading at the market, the Cairo and Alexandria stock exchanges are among the biggest in the world. The volume of trading, however, amounting to about \$300 million in April, for example, indicates that the market has not fully recovered from the blow it was dealt in the early 1960s as part of sweeping socialist changes.

Since its reactivation five years ago, a number of laws have been passed to help the market grow. Incorporation procedures have

been simplified, leading to a substantial increase in the number of companies registered at the stock exchanges. The return of stocks has been made tax-exempt in certain cases, and public companies are legally obliged to register at the stock exchanges.

One of three closely monitoring the capital market is Hani el-Emery, managing partner of the Egyptian Financial Group. "We have discovered, along with other specialists, that the securities traded on the market are undervalued," he said. He suggested that the market could regain its attractiveness with some additional liquidity injected through individual investors, coupled with government directives for public-sector companies

to build up their investment portfolios by acquiring stocks. "The climate is ripe for offering incentives to small- and medium-size investors to pull out from under the mattress some of their idle and eroded savings," Mr. Emery said.

Many potential investors are reluctant to trade securities, placing their savings with banks instead. A study by Misr Development Bank underlines the missing link between capital-owners and opportunities in the capital market, and points out that the surge in bank deposits is evidence of a lack of public awareness of the capital market's capacity.

The study also shows that banks, except the Central Bank, and specialized institutions normally di-

recting large portions of their funds to the capital market actually invest only one-fourth of their deposit liabilities in securities.

Some investors' bad experiences with the market may partly justify the low demand.

The market value of housing and development bonds issued by the government over the last few years dropped below nominal value because the low interest rates fixed at the date of issue became obsolete with inflation and the recovery of interest rates. Shareholders in public-sector companies have often suffered the consequences of over-regulation, which in some cases prevented returns from trickling down to them.

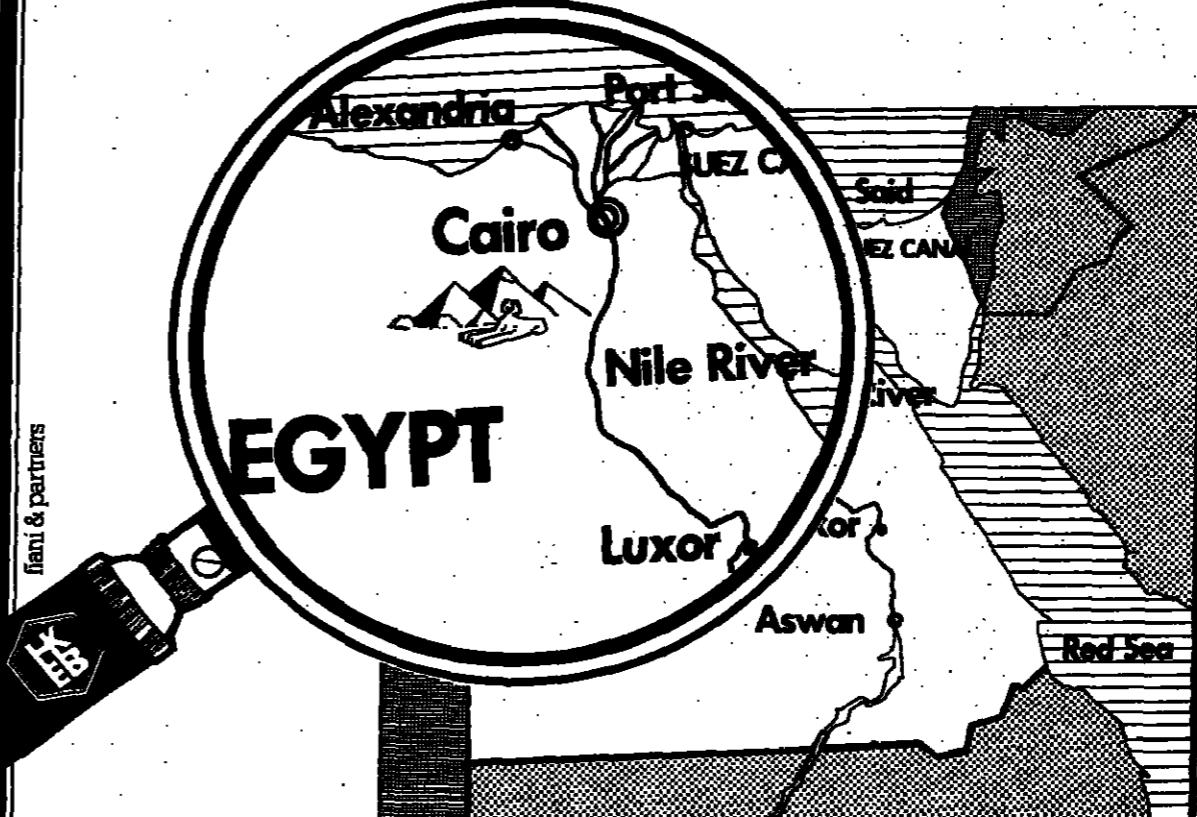
Specialists agree that releasing

the government's grip on public-sector companies should help managers operate more economically, and that regular media coverage of public companies' activities and the annual publication of their balance sheets should boost confidence among buyers.

Mr. Emery also recommended that concrete measures be taken for the capital market to become a professional organization, and he believes that freezing interest rates from ceilings imposed by law, as well as waiving taxes on bonds, should provide a healthier environment for the market.

The recent formation of Misr Investment Finance Co. firm specializing in underwriting and the sys-

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EGYPT

Industrial Planning Shifts to Removing Reliance on Imports

CAIRO — Egyptian industry is entering a new phase, characterized by private-sector and foreign interest in helping reduce reliance on imported manufactured goods.

After the economic liberalization measures of the mid-1970's, the private sector seemed reluctant to invest in industry when lavish opportunities existed in other areas, especially construction and trade. The balance of trade problem resulting from the surge in imports and the waning of the rapid growth that was the hallmark of that period gave way in the current five-year plan, worked out under President Hosni Mubarak, to an emphasis on commodity production to reduce the trade deficit.

The private sector is being counted on to provide, separately or with foreign partners, one-fourth of the investment required during the five years, and reports by the Ministry of Planning indicate that once-reluctant private investors are living up to the government's expectations.

Egyptian entrepreneurs contributed one-third of the more than \$1.5 billion invested in industry during the fiscal year that ends June 30.

The oil, petrochemicals and heavy industries sectors are government-owned, and the state dominates the spinning and weaving, pharmaceuticals, chemicals and mining industries. The stress during the current plan is on maintaining and renovating existing plants, as well as on completion of projects under way, with only a little more than 10 percent of funds directed to capital investment.

The new projects focus on creating a base for local industry. One example is the giant Alexandria iron and steel project now under construction. It is due to begin production in two years with a capacity of 750,000 tons of reinforced steel a year. The total investment cost is \$800 million. Major projects starting operations this year include a ferrosilicon plant producing 28,000 tons a year and two aluminum manufacturing projects that will add more than 125,000 tons a year to the present production.

Other public-sector industries growing significantly this year, with the aim of partly replacing imports, are food processing and agro-industry. The petrochemicals industry is expected to produce an

exportable surplus of urea fertilizer this year for the first time.

Although the public sector has always benefited from protectionist measures that have extended its monopoly over vital industries, extensive government direction of its administration has hindered economic decision-making. Raw materials, energy and labor are directly subsidized by the government, and its imported requirements of capital equipment and accessories are acquired on the basis of preferential exchange rates and customs exemptions. But because of government price controls, among other things, more than one-third of the state-owned firms incur losses; these are later made up by injections of funds, further burdening the national budget.

One heavily subsidized industry that has been the subject of debate from the outset is the El Nasr Co., which makes trucks, buses and cars under license. It is often criticized for having failed after more than 20 years of operation to produce more than the mechanical parts and body, remaining basically an assembly plant. El Nasr officials complain that, in spite of the low cost of production, it is unable to provide a marketing edge.

Egyptian-made Fiat models sometimes cannot compete with imports, especially inexpensive ones from East Bloc countries.

Egypt's continued reliance on imports for three-quarters of its needs apparently prompted Mr. Mubarak's call on a team of industrialists for an all-Egyptian car. After a survey of the market, a project for a new line of small and family-size cars was added to the development plan. Still, it is not an Egyptian model, but a dozen top European, U.S. and Japanese manufacturers that have bid on the car; a decision is due before the end of this year. Output is expected to reach more than 100,000 cars of both sizes in five years. But El Nasr officials concede that, at least at first, the new cars will be mostly assembled. They expect the new cars' prices to be at least 25 percent lower than those of their imported counterparts.

Meanwhile, a privately owned plant is scheduled to start producing trucks next year and may make cars later. General Motors Egypt was granted a license two years ago in a move that broke open one area

Improved Arab Ties Spur Growth

CAIRO — A fresh wave of eager Egyptian expatriates and Arab investors is renewing confidence in the Egyptian economy, giving new momentum to the 10-year-old drive to attract foreign capital and know-how. The trend coincides with the dust's settling after a period of uncertainty about Egypt's future following the assassination of President Anwar Sadat two and a half years ago. It is characterized by a proven willingness to commit larger capital funds for longer periods than ever before.

Many of the estimated two million Egyptian expatriates in the Gulf are drawn to invest in their homeland now that relations with Arab countries are generally improving and the danger recedes of losing their jobs because of the oil price squeeze. Their share in private-sector and joint-venture projects with foreign partners has climbed to more than two-thirds of the capital committed to projects approved by the Investment Authority by the end of last year. They have been given the same tax holidays of five or more years allowed by the Foreign Investment Law, encouraging the new attitude.

The development of better relations with other Arab states seems to have removed a barrier on private Arab investors during the difficult period that followed Egypt's establishment of ties with Israel in 1978.

(Continued on Next Page)

previously closed to the private sector and marked an easing of longstanding sensitivity about multinational corporations operating in Egypt. The project groups General Motors and its Japanese partner, Isuzu Motors, Egyptian private investors, who are providing one-third of the equity, and Saudi and Kuwaiti investors.

The understanding is that the domestically produced part of the GM trucks will reach 60 percent by the second phase, five years after production begins. GM is providing the management, know-how and training of labor. Pointing out the importance of those factors, GM's board member and acting chairman, Hany Elshamy, said: "With the funds existing and the opportunity made available for

me to be associated with GM, I did not hesitate to join, even if it means waiting several years to get return on my investment."

Another breakthrough in the auto industry that could set a pattern for cooperation between the private and public sectors, drawing on foreign expertise and capital, is a planned Daimler-Benz truck assembly plant. Final agreement on the project seems imminent. Officials expect this plant, along with GM Egypt and El Nasr's car project, to cover most of Egypt's needs within five years. Like GM, the Daimler-Benz project is likely to be granted a five-year tax holiday as well as tax exemptions on capital equipment and parts to be assembled.

— OLFACT TOHAMY

Workers' Remittances Aid the Economy But Cause a Worsening 'Brain Drain'

By Elizabeth Taylor

CAIRO — The flood of cheap labor out of poorer Arab states into oil-exporting states after the oil price rises of the 1970's and the reverse flow of remittances have given rise to a significant, if partial, economic integration of all the states and to a regional economy dominated by oil. This integration, however, has been largely unregulated and unplanned, and the consequences are increasingly giving rise to concern by the poorer, labor-exporting states, such as Egypt.

Egypt is by far the largest exporter of labor in the area, accounting for about 43 percent of all Arab labor migrants. After 1973 the flow of labor out of Egypt began to accelerate rapidly. By 1975, with a total migrant work force of about 400,000 in the Middle East, Egypt had overtaken North Yemen as the major Arab labor exporter. By 1980, Egypt had at least doubled its number of migrants. Because much migration is informal or illegal, and escapes official records, estimated

the volume of Egyptian labor in the region vary, from a World Bank prediction of 1 million in 1985 to Egyptian economists' estimate of 2 million.

The rapid flow of labor abroad after 1973 was a response not only to the expanding labor markets of the oil-rich states but to the liberalization of Egypt's economy. Dur-

ing the Nasser years, migration was tightly controlled by the government. Consisting mainly of professionals and bureaucrats chosen by the state, the Egyptian work force abroad was strictly regulated to be consistent with the country's policies in the Middle East and with its own manpower needs. After state controls on migration were lifted in the early 1970's, the flow of labor abroad sharply increased and it spread to all skilled levels. It has also been largely unregulated.

The Arab market for Egyptian labor has undergone many shifts in recent years, indicating the insta-

Migration affects village life.

ting of the migrant labor market and the precariousness of Egypt's position within it. After the closure of Egypt's border with Libya in 1977, for example, illegal migration across the border came to a halt. The Arab states' ostracism of Egypt after the Camp David agreements resulted in a severe cutback in the number of Egyptian professionals and administrators sent to these states.

More importantly for future trends, Saudi Arabia and, earlier, other Gulf states have been turning increasingly to high-technology and non-key projects employing Southeast Asian labor. As a result, the share of the labor market going to unskilled Egyptian and other

Arab workers is declining. Indeed, were it not for the recent expansion of the Iraqi and Jordanian markets for Egyptian workers, Egypt's share of the Middle Eastern labor market might well have shown an overall decline in the 1980's.

Past shifts in the migrant labor market, as well as trends such as increasing competition from Asian labor and the slowing of investment projects in the oil states, indicate that the present rate of Egyptian migration may not be sustained. If the rate declined, particularly for unskilled workers, it would create a return of migrant workers and reduce the remittances, which since 1979 have been Egypt's single most important source of foreign currency. As the unemployment rate is at least 12 percent and remittances account for about \$2.5 billion, such a prospect is viewed with alarm in Cairo.

At the same time, however, the high hopes for a beneficial economic impact from migration that abounded in the early and mid-1970's are now being tempered by a more sober assessment. It had been assumed that migration would reduce the unemployment rate, which was about 11 percent in the early 1970's; instead, the rate has steadily risen.

Thus, serious unemployment among the unskilled and young people exists alongside acute shortages of professionals and skilled workers. These distortions in the

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	1981	1982
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Total Assets and Total Liabilities	234.5	271.4
Assets		
Cash and deposits with banks	130.3	162.6
Loans and advances	82.5	80.2
Investments at cost	8.5	11.9
Bank premises at cost	6.6	7.6
Liabilities		
Deposits and current accounts for clients	142.6	151.3
Deposits and accounts due to banks	48.5	67.2
Total shareholders equity	23.4	32.0

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED ON DECEMBER 31, 1983

Total income	24.9	
Total expenses	17.6	17.0
Total profit for distribution	7.3	8.0

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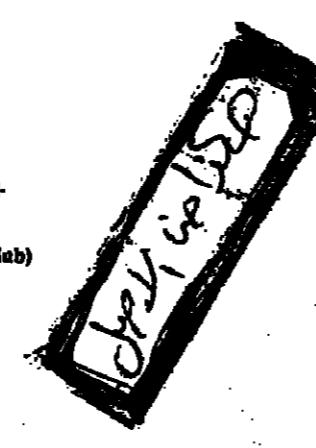
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EGYPT

Improved Arab Ties Spur Foreign Investment

(Continued From Previous Page)

No private Arab investors went as far as withdrawing funds from ventures; now intimidation at the official level is waning and more influential Arab businessmen are raising the profile of their investments in Egypt. At the end of last year Arab investments in projects neared one-fourth of the capital invested separately or in conjunction with the Egyptian private sector. By far exceeding other foreign sources, Arab capital now accounts for almost two-thirds of the foreign capital invested in Egypt.

One important aspect of the trend is that many ventures approved recently are medium- and long-term projects. With the market saturated with five-star hotels, banks and foreign manufacturers' offices, the latecomers are turning to projects more in line with the government's drive to reduce imports, and thus are responding to a great extent to calls for refurbishing the economy's productive sector, particularly in industry.

Gulf Arab Investment Co., a holding company with an authorized capital of \$500 million dollars, seems to be going farther than any other major Arab investor, with its planned equity participation in a

truck assembly plant. Not only does this ambitious project underline the extent of the company's enthusiasm, but the fact that the other main partners in the Daimler-Benz licensed agreement include a major public-sector company points to a new attitude on the foreign investor's part.

Taha Hussein, Gulf Arab Investment's general manager, emphasized that the company intended to create an image different from the one characterizing Arab investment in Egypt over the last decade. With the exception of a multistorey garage, the company, he says, is resisting involvement in real estate development.

It remains to be seen whether the Investment Authority, which is in charge of licensing and monitoring private-sector and foreign investment projects, will capitalize on the trend. The authority has to a certain extent managed to streamline its procedures. But it remains difficult for an organization that has swollen over the years and continues to share some of its prerogatives with other government organizations to respond instantly to the needs of potential as well as existing investors.

— OLFAT TOHAMY

Economic Growth Rate Sets Steady Pace

(Continued From Page 7)

modity exports should therefore be a little higher at \$3.7 billion. Imports are likely to be down further because of the continuing decline in world commodity prices leaving a trade deficit of \$4.4 billion to \$4.5 billion.

Invisibles have again performed well. Figures for the first 10 months of this financial year suggest that worker remittances will top \$3 billion this year. Cash transfers, which account for about one-fourth of total remittances, were up 25 percent at \$854 million, in the first 10 months. The Suez Canal will probably gross more than \$1 billion this year for the first time (although the net figure after expenses will likely be less than half that), but tourist revenues for the first nine months of this fiscal year are down slightly. In all, net services could be \$3.2 billion to \$3.3 billion this year, giving a current account deficit of \$1 billion to \$1.2 billion.

From the beginning of next year, however, the balance-of-payments picture begins to cloud. Oil revenue is expected to slip \$200 million because of higher domestic consumption. Workers' remittances are unlikely to grow dramatically, since the authorities are now bringing in remittances more effectively and opportunities for work in other Arab countries are diminishing. In the absence of any major new source of foreign exchange, the slack will have to be taken up by industrial and agricultural exports.

These now account for no more than \$700 million together.

A concerted effort is being made to promote industrial and agricultural exports. An Export Development Bank with capital of \$50 million was set up last year to explore new markets and improve the packaging and transportation of products. Industrial exports are still sluggish but there have recently been important breakthroughs into new markets for Egyptian processed foods.

The vulnerability of exports in the face of a drop in oil exports points out the need to curb wasteful consumption and to strengthen the industrial base. Here the economic planners are treading a perilously thin line, going for maximum economic growth to install as much productive capacity as possible, which will eventually ease the pressure on imports but in the short term creates bottlenecks and inflationary pressures on the balance of payments, and does not necessarily lead to efficient investment.

The government has been highly successful in meeting its investment targets and reducing the aid backlog. Investment expenditure has been running at 25 percent of total expenditure. For 1983-1984 it was 4.4 billion Egyptian pounds. With the exception of the oil sector, whose budget has been trimmed, all production sectors have met the investment targets of the current five-year plan.

The authorities have laid great stress on adhering to the plan, which is a return to a more formal

structure after the looser, "rolling" plans of previous years. It is also more oriented toward production and exports. Its 8.1-percent average growth rate, although lower than the previous plan's, is still ambitious. The 1982-1983 growth rate was a little under 8 percent, well below the 8.5-percent goal, and spending targets were exceeded.

The net deficit to be financed by the banking system will almost certainly be higher than the budgeted 1.3 billion Egyptian pounds, especially after President Hosni Mubarak's call last month for a 20-day bonus pay for all workers, which will cost 225 million pounds.

It is difficult to know how much slippage there has been in subsidy costs. The aim had been to bring them down from 2.04 billion pounds to 1.686 billion pounds this current year. No figures for expenditures have been given for 1982-1983. The previous year, the final subsidy bill was 400 million pounds higher than budgeted.

Nevertheless, the authorities are having some success in containing the growth in the money supply. It is now about half the 42-percent rate of 1981-1982, which has helped keep the inflation rate down to 16 percent.

More important for the balance of payments, and for the wrong signals it gives the economy, is the \$3.4-billion to \$4-billion hidden subsidy on oil — the difference between what Egyptians pay for Egyptian oil and what it would fetch if exported.

The structural distortions created by subsidies are the greatest threat to Egypt's recovery, as the wasteful consumption they engender comes at the expense of capital expenditure when the going gets rough. With the struggle to create productive jobs for the 400,000 young Egyptians entering the labor market each year, high growth rates are essential. What is needed is a better channelling of subsidies to the people who need them, not penalizing the 3.4 million to 4 million low-paid workers in the public sector.

The low level of reserves — they equal about one month of export earnings — undermines the fragility of Egypt's recovery. The debt profile is reasonable — the nonmilitary external debt is \$17 billion to \$18 billion — but, increasingly, new loans taken out to cover installations on concessionary terms are costing more and raising the cost of debt service. The purchase of U.S. weapons has also added greatly to the burden, increasing the debt service ratio from 20 or 25 percent to more than 30 percent.

In the absence of any immediate need for financing, Egypt has decided not to approach the IMF for a new credit. The government would like an agreement with the IMF, to give its economic program greater credibility with foreign lenders, but it is unprepared to accept IMF terms. If its economic package is sufficient to keep the recovery on course,

Relations With Washington Still Close

(Continued From Page 7)

any serious problems for the Egyptian government, which is heavily dependent on U.S. largesse. The Israeli pullback was delayed indefinitely by the refusal of Syria to sign a similar accord with Lebanon. Under pressure from the Syrians, the Lebanese government abrogated the accord with Israel, leaving the question of the Egyptian envoy further in question.

Mr. Mubarak has resisted calls in the Arab world to renounce ties with Israel altogether and to drop the pro-U.S. orientation of Mr. Sebagh. And, although there was not much Egypt could do directly, Mr. Mubarak constantly supported the U.S. efforts in Lebanon and was unhappy and disappointed by President Ronald Reagan's seeming haste in pulling out the U.S. Marines last winter.

But given the contradictions in the Middle East and the difficulty for the United States to chart a steady path in relations with any country in the region, the ties with Cairo have been fairly steady on questions where the Israelis are not involved. For instance, the United States and Egypt share a strong antagonism toward Libya and its meddling in other countries, particularly the Sudan, where Egypt has particular security concerns.

When the Sudanese have felt threatened by the Libyans, the Egyptians have been prompt in offering political and military support. And the United States has sent AWACS surveillance planes to team up with the Egyptian Air Force in providing security.

Mr. Mubarak has been careful, however, not to dramatize the U.S. connection. Egyptian officials have sharply limited news coverage of the annual joint Egyptian-U.S. maneuvers and have tried to play

down the concern about the Libyans in public. And while privately, the Egyptians express alarm to the Americans about Soviet actions.

The

Israeli pullback was delayed indefinitely by the refusal of Syria to sign a similar accord with Lebanon. Under pressure from the Syrians, the Lebanese government abrogated the accord with Israel, leaving the question of the Egyptian envoy further in question.

Many officials in Washington express annoyance at this effort to distance Egypt from the United States even while the country is receiving large amounts of aid from Washington. Nevertheless, Washington is willing

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EGYPT

Amiability in the Bureaucracy Masks a Crippling Obstacle to National Growth

CAIRO — A visit to the headquarters of the General Organization for Industrialization in Cairo's Garden City district is an education in the workings of the Egyptian bureaucracy.

Employees, in gestures of fraternal solidarity, tip the elevator attendant the odd five piasters; an atmosphere of scruffy, egalitarian generosity prevails. It is an amiable rabbit warren of a building where the plans for much of Egypt's industrial development and many shattered private-sector hopes lie buried in heaps of dusty files. For GOFI, as it is known, is the repository of the ancien régime, the last bastion of Nasser socialism against the fat cats and wheeler-dealers of the open-door era.

For many businessmen, GOFI long symbolized Egypt's legendary bureaucracy. To run the gamut of its opposition was to court disaster. Approval from the Investment Authority or the Ministry of Industry itself would mean little without GOFI's blessing. Indeed, ministers were known to have a sudden change of heart when GOFI appeared on the scene.

GOFI has in the past (though less so now that there is a more clearly defined presidential policy) played the inertia of the system and the lack of an organizational flow of command to further its ideological ends and so preserve its power. Other government organizations, on the whole, have had less-exalted ambitions.

In the delicate balance of interdepartmental

dealer excesses inevitable with an open-door rivalry, the advancement of one organization at the expense of others — as happened in 1980 with the Investment Authority, where the staff was more than quadrupled in two years and salaries raised to three times the civil servant's norm — is deeply resented and leads to endless trouble. The bureaucracy is so strong that its cooperation has to be bought with a strict regard to prerogatives and territories.

Nasser gave the bureaucracy a new lease on life when he nationalized most of the country's economic base in the early 1960s. Commissars' poor economic performances, exacerbated by the drain of funds to military expenditure,

funded by foreign capital, that would create real jobs and so relieve the pressure on the public sector, allowing it to reduce staffing to more productive levels. But not enough jobs have been created in the private sector to make wage and salary reform acceptable for the average public sector worker; the strategy required workers to have faith that one day there would be enough jobs for them to make the jump into private-sector industry.

The disparity between private and public-sector salaries — an English-speaking secretary just out of the American University in Cairo can earn as much as a ministry undersecretary — has sharpened the divide. The public sector has due in its heels, and for the time being it has won, although attitudes may soften under President Hosni Mubarak, who is more sympathetic to the public sector than was Anwar Sadat.

The root problem with the bureaucracy, however, goes much deeper than the fears of public-sector workers for their livelihood. It involves a whole ethos that seeks advancement by preference rather than performance, a system of trading favors. It is a system that is particularly hard to overturn in traditionally minded Egypt, where personal relations are so important. "We are a very sentimental people," said an Alexandria businessman. "We will support a friend even if he has done wrong."

This attitude has encouraged the wheeler-

dealer that has not been sufficiently controlled. Mr. Mubarak is having difficulty curbing corruption without embarking on a witch-hunt that would hurt both public- and private-sector industry.

"In the free-for-all of *infidat*" — the open door policy — "who is to say they haven't got some infringement that can be laid against?" a businessman said.

Often a manager or entrepreneur has to bend the rules to get anything done, be it the informal hiring of someone in the Investment Authority to make sure his investment application is not shuffled into an unused "out" tray, or a public-sector manager accepting contributions from foreign companies to establish incentive funds for employees to process their applications more quickly. Because no lines are drawn between acceptable and unacceptable conduct, everyone who takes an initiative is vulnerable. The instinct of the Egyptian manager is therefore to do nothing, avoid making decisions, and create the impression of activity by forming committees and generating paperwork.

Attempts have been made to untie the public-sector knot from the government's apron strings. In the case of the Suez Canal Authority and the oil ministry these have been successful because both can generate foreign exchange. In general, however, most public-sector companies cannot do so; thus they rely on the government

for hard currency for capital investment, have no control over wage structures or the retail prices of their products and have fallen back on large overdrafts at accommodating state banks.

The most profligate public-sector managers are being brought to account, according to Saïd el-Serafi, who manages KABO, a highly successful public-sector textile company. A parliamentary committee has suspended the board of another textile company while it looks at the books.

Mr. Serafi said he no longer had any trouble offering his work force incentives: "I am running a public-sector company like the private sector from the point of view of wages," he said. He attributed the poor performance of some public-sector companies to bad management.

A different view was given by another public-sector manager, who has been known to virtually reprimand tycoons and experts from foreign companies to draw up complicated legal documents his employees were unable to provide. His efforts at making his department efficient, he said, have met with resistance and hostility. He described the experience as "heartbreaking," as he sees himself being passed over in favor of others more amenable to the system.

Nothing will change until Egyptians pay more lip service to state institutions — paying taxes, for instance. And as Sadat said during the 1973 war, "It will take generations for Egyptians to change."

— ALAN MACKIE



A Guide to Making Life a Bit Easier in a Hectic Capital

By Simon Ingram

CAIRO — Cairo has long been saddled with the reputation of being one of the world's most frustrating cities, and for all the extensive infrastructure renovation now under way there is little confidence in the resident business community that better times are imminent.

New road overpasses appear almost monthly, but for most of the day downtown traffic rarely accelerates beyond a tedious crawl.

On good days, international phone calls can be placed in minutes, but attempts to reach a number in a neighboring block often result in wrong numbers and exasperating silences. The recent inauguration of a 21-million Egyptian pound electronic exchange in Zamalek, one of the city's most affluent districts, sent the entire phone system haywire.

The underground train system now under construction is easily the most grandiose project attempted to date, but as earth-movers continue to wreak havoc in the city center two years after the work started, the average Cairene's skepticism at the value of imported technology is understandable.

However, mistrust of things foreign has not so far, noticeably eroded the Egyptian's much-revered friendliness to visitors. An unwary pedestrian roundly abused by the driver of a taxi who narrowly missed him as he sped through a set of red lights may disagree, but to older hands Cairo remains a charmed spot. The knowledgeable expatriate can find everything from a Scandinavian sauna to a sunset aboard a Nile sailing boat.

The visiting executive may feel the urge for one or both of these quicker than he imagines. Long

days spent trying to haggle and above an apparently innocuous investment proposal around the endless bureaucratic obstacle course erected by a variety of ministries and other more-or-less-interested institutions has, in the past, been enough to plunge any but the most patient person into despair. Procedures have reportedly been speeded up considerably under the present minister of international investment and cooperation, Wagih Slimy, who has repeatedly promised to eliminate the delays that prospective investors have had to go through.

Red tape at the Customs Authority in Alexandria port, however, remains as convoluted as ever, and an energetic clearing agent for consignments arriving at Cairo's airport is a vital part of a foreign company's payroll. Even so, delays are practically unavoidable.

Courier firms are experiencing increased difficulties entering and leaving the country as the government seeks ways to give its own service a boost; negotiations on the matter are under way.

Egyptian currency regulations are also tangled. The announcement in late March of yet another exchange rate for the dollar confused matters still further, though the new rate is considerably more advantageous to the foreign visitor than the existing four rates were. Banks now buy dollars at an incentive rate of 112 piasters to the pound, but hotel bills, airline tickets and visa fees still have to be paid at the old rate of 0.85 pound to the dollar.

Moreover, joint venture companies established under Law 43, the central plank of Egypt's foreign investment policy, are ineligible to buy hard currency at the banks and must go to the free market, where each dollar carries a six- or seven-percentage mark-up.

Yet foreign executives continue to make Cairo the stepping-off point for their Middle East operations, as the large turnouts for the monthly American Chamber of Commerce luncheons show. The annual international fair regularly attracts sizable delegations from more than 30 countries, an indication of the significant place that Egypt, for all the frustrations involved, occupies in boardroom opinion.

In some respects, things in Egypt are looking up, though veterans who remember the austerity of life in the 1960s tend to spot these changes quicker than most people do.

Hotels, for example: The 25-year-old Nile Hilton, long unrivaled in standards of comfort, has been joined by such competitors as the Marriot, erected (a little gaudily for some) around the splendor of a 19th-century khedivial palace, and the newly opened Gezira Sheraton, whose upper-floor guests get butler service and a private elevator.

Those with crowded schedules can avoid the chaos of central Cairo by running entire business trips from the Heliopolis Sheraton, Cain Concorde or Novotel, all within minutes of the international airport. A single room in a five-star hotel will cost about 56 pounds; a double about 70 pounds.

Apartment rents appear to be leveling out after a decade of astronomical rises. A spacious Nile-side spread will cost 800 to 1,600 pounds a month, while a one-bedroom apartment in central Cairo can be had for about 400 pounds.

Good food is plentiful, with a profusion of fresh fruits and vegetables in the street markets. High-quality meat is available only on weekends, as

butchers are required to close Sunday through Wednesday. Prices are rising fast, but are still comfortably below European levels.

Cholera scares are as frequent as the pipe leaks that regularly flood the streets with raw sewage and corrode the antiquated power and telephone cables beneath. Cautious foreign residents stick to bottled mineral water, and rarely stray beyond the steadily expanding circuit of passable European-style restaurants.

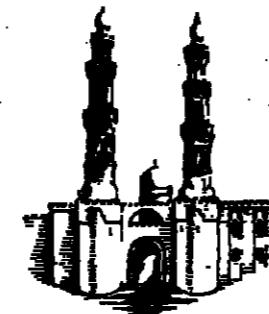
Swissair in Giza (phone 729-487 or 728-488), Don Quichotte in Zamalek (phone 806-415) and the Cairo Sheraton's La Mamta (730-333 or 731-555) are established favorites. Closer to the city center, Estoril (743-102) and Caroll (746-434) offer just the kind of calm and quality most likely to restore the frayed nerves of a harassed executive.

Nightspots are in shorter supply. Most leading hotels admit hotel guests to their discotheques (the Nile Hilton's Jackies and La Baron at the Heliopolis Sheraton are the best known), but the competition should heat up this summer after the night-club entrepreneur Regine opens her latest nightspot at the Gezira Sheraton. The infamous Pyramids Road, meanwhile, continues to draw a largely Middle Eastern clientele with more home-grown attractions.

Just getting around in the Cairo region presents problems. Taxis are still cheap — if you can find one. A 10-minute ride should not cost more than a pound, though, as the driver will quickly point out the meter is no longer any guide — drivers rarely if ever bother to turn their meters on. Hourly rentals start at 5 pounds. Mercedes limousines can be found at the airport and major hotels, where a reasonably reliable price list is usually available.



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	L.E.
Capital, Reserves & Provisions	350,441
Deposits & Current Accounts	2,446,675
Banks & Correspondents	221,498
Sundry Credit Balances	178,150
	3,196,764
Contra Accounts	1,394,779
	L.E.
Cash in Hand & Balances with Banks & Correspondents	1,557,915
Total Investments	180,856
Total Advances & Loans	1,388,277
Sundry Debit Balances	69,716
	3,196,764
Contra Accounts	1,394,779
Net Profit	45,603

Joint Ventures:

Banque Du Caire Barclays International Bank/Egypt
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Cairo Far East Bank/Egypt
Saudi Cairo Bank/Saudi Arabia
Cairo Amman Bank/Jordan
and participating in the following banks:
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Egyptian Gulf Bank/Egypt
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Alexandrian Officials Trying to Turn Back 2 Decades of Neglect

ALEXANDRIA — This is the quintessential city of dreams, a figment of the imagination of numerous poets more in love with the mythology of Alexander's city than the reality of its modern renaissance as a bustling port built on the wealth of Egypt's cotton boom.

Thanks to the port and the financial weight it gave the business community, Alexandria had a municipal authority long before Cairo and indeed before many large European cities. Under its watchful eye residential Alexandria expanded eastward, well away from the dockland slums, along the narrow isthmus that protects Lake Maryut from the sea, toward El Ma'mira and Abu Qir. Acres of urban villas attest to this era of gracious living, though many have since been pulled down to make way for modern apartment blocks.

Since the 1952 revolution, however, it has been downhill virtually all the way for Alexandria. The tentacles of central government stifled the autonomy the city once enjoyed as Egypt's gateway and premier port. Neglect, overcrowding and the relentless, often mindless Arabization of its Mediterranean heritage have left "the pearl of the Mediterranean," as the dated guidebooks still like to call Alexandria, looking tawdry and the worse for wear.

Four years ago, a visionary governor, Naim Abu Taleb, was determined to restore Alexandria to some of its former splendor. Taking Anwar Sadat, then the president, at his word — that Egypt needed to decentralize — Mr. Taleb began looking for ways to generate local funds.

He did not last long. A former colleague said: "Naim's mistake was to think he was king of Alexandria. In Egypt there is only one king." More to the point, his moves to open up Alexandria's Nouzha Airport to international flights, to set up a maritime bank to aid development and to promote Alexandria abroad — he had a wildly ambitious plan to develop Alexandria as a financial center — ruffled feathers in Cairo, where ministers and civil servants were quick to note the implications for their areas of authority.

Subsequent governors have kept a much lower profile, but the issues of decentralization, tied in with the role of the public sector in development, are as live today as they were then, and the problems are deeply resented by the business community, which wants a better deal for Alexandria.

This dissatisfaction surfaced recently when a number of members of the Chamber of Commerce, led by its deputy chairman, Ali Zaki, decided to form their own group. The organization, which has more than 100 members, feels the chamber has not adequately promoted the interests of the private sector nor Alexandria as an investment location.

The group has sought meetings with ministers and is preparing a memorandum on how to revive business confidence, which was badly undermined by measures last year to curb luxury imports. Denied access to government-account imports, which are handled exclusively by the public-sector trading companies, the private sector feels threatened by the measures. It feels it could handle imports more efficiently than the public-sector companies and wants a slice of their business. It is also calling for the customs service to be streamlined.

To promote investment, 10 members of the group, led by the former governor, Mr. Taleb, are considering setting up a finance company. They are also proceeding independently with an agricultural project to produce vegetables for export on a 5,000-acre (2,018-hectare) site near Dikhaela on the western approaches to Alexandria. They also intend to set up a construction company and are planning a tourist village on the northwest coast. They are looking for foreign partners.

This new private-sector assertiveness will be welcomed by potential foreign investors. However, Alexandria has always had the advantage of location — close to export markets and the port — fewer difficulties in acquiring land and relative freedom from Cairo's red tape. Union Carbide, Warner Lambert and Colgate-Palmolive have plants in Alexandria, and there is a solid base of small local and Arab-owned joint ventures.

Sheridina, a small clothing manufacturer operating in the Amriya free zone, is typical. After a year in production, the managing director, Djemil Akl, is considering doubling capacity. Like many others, he started building before he had investment approval, hooked up to water, sewerage and telephone, sorted out a fluctuating power supply

(Continued on Page 16)

Oil in Egypt

by Abd El Nady Kandeel
Chairman, The Egyptian General Petroleum Corporation

OIL exploration activities have been intensified since 1973, and a number of new discoveries have added nearly 2.5 billion barrels to proven reserves. More than \$1.4 billion has been spent on oil exploration from 1973-1981. Production of oil and natural gas has increased during the period 1974-1983 from 7.5 million tons to about 36 million tons. However, domestic consumption during the same period has grown from 6.5 million tons to nearly 18.6 million tons.

NATURAL GAS. Recent exploration activities have resulted in the discovery of several fields of dry natural gas. A pipeline is under construction to gather associated gas which has been increasing with growing oil production. Hence, the amount of natural gas produced and utilized has rapidly increased from 33 thousand tons in 1975 to nearly 2.8 million tons in 1983. It is anticipated that natural gas will play an important role in the energy mix. To accelerate this role, the Egyptian concession terms have been recently modified to allow for greater incentives to encourage foreign companies to explore for natural gas.

Exploration
Egypt is now experiencing a large-scale program for petroleum exploration and development. Since 1973, Egypt has concluded nearly 74 exploration agreements with international oil companies.

Another 20 more agreements are expected to be ratified soon. Under the already effective agreements, the companies are committed to spend nearly \$141 million on exploration over about 8 years. Along with this, the companies have paid Egypt signature bonuses of \$139 million.

During the period 1973-Feb. 1982, exploration drilling amounted to 2.7 million feet, nearly 100% of all exploration drilling since the discovery of oil in Egypt to the year 1973. During the same period over 320 exploratory wells were drilled. Total company outlays on exploration since 1973 had already topped their total obligations of \$141 millions. The result was the discovery of about 45 new fields of oil and gas which are now producing or being evaluated and developed.

In addition to the attraction of the Egyptian production sharing concessions, and to these specially high success ratios in oil finding, Egypt has certain inherent characteristics which account for the attractive foreign investment climate. To mention but a few of these endowments, a deep-rooted respect for contractual relations, a vast and diversified base of manpower skills, on all levels, which provide both needed work and an easy atmosphere to discuss problems and reach fair solutions. In a recent study, Egypt came top of nearly 40 developing countries where the business climate was termed as "attractive".

Production

Petroleum production, including natural gas, has increased from 8.5 million tons in 1973 to 36.0 million tons during 1983.

The fiscal year has been modified from a calendar year into a year that begins July 1. The official target of one million barrels a day or 50 tons per year is expected to be reached by mid 1985.

Egypt gives great attention to natural gas as a source of energy. It first came on stream in 1973 with a production level of 33,000 tons which increased to 900,000 tons by 1979 and to nearly 2.8 million tons in 1983. A target of nearly 5 million tons is anticipated by 1985. In addition to the utilization of natural gas produced in Abu Nadi, Abu Qir and Abu El-

Armed Forces Modernization Spurs Growth of Arms Industry

By Robert Bailey

CAIRO — Egypt's long-cherished ambition to be the center of a pan-Arab military equipment industry has been stimulated by the modernization program for the forces, which started five years ago.

A principal aim of the 10-year program to replace Soviet with Western equipment is the development of domestic manufacturing of most military items. This is intended to avoid dependence on imports and further encourage exports of munitions and weapons, now thought to be worth \$1 billion a year.

The program has a substantial domestic market to build on. Egypt's armed forces are the largest in the region, with almost 500,000 personnel. The military plays an influential part in national decision-making, as well as a more significant role in the economy than is generally acknowledged. The army, for example, is engaged in a wide range of nonmilitary activities, particularly in agriculture, telecommunications, road improvements and housing.

The desire to develop wide-ranging armaments production stems from an influential policy-making group. President Hosni Mubarak, a former head of the air force, is chairman of the National Defense Council, the country's main military policy forum. Other leading figures are Mohammed Abdel-Hamid Abu Ghazala, who is defense and military production minister

and deputy prime minister, and the chief of staff, Lieutenant General Abdel Ghafour el-Orabi.

Mr. Orabi said Egypt was self-sufficient in small arms, mortars and most calibers of ammunition, and had almost reached the same level with regard to rockets and howitzers.

The head of the air defence forces, Lieutenant General Sayed Hamdi, has been quoted as saying that Egypt is producing all of the 23mm guns for its Soviet-supplied ZSU 23-4 batteries as well as other missiles and warheads for Soviet-designed weapons. The Sakr Factory for Developed Industries in Helwan, near Cairo International Airport, is an important manufacturing center, employing about 5,000 people on rocket and missile work that began with production of Soviet Katyusha rockets more than 30 years ago. Among its latest products is an infrared-seeking portable surface-to-air missile based on the Soviet SA-7.

Egypt's armaments production is overseen by its Military Production Industries and the Arab Organization for Industrialization (AOI). Production by the former for the Egyptian armed forces is thought to be worth about \$300 million a year. Saudi Arabia, Qatar and the United Arab Emirates participated in the latter until Egypt signed a peace treaty with Israel in 1979, although the reason was as much internal feuding as Camp David. Egypt insists the AOI is still a legal entity, however, the nucleus

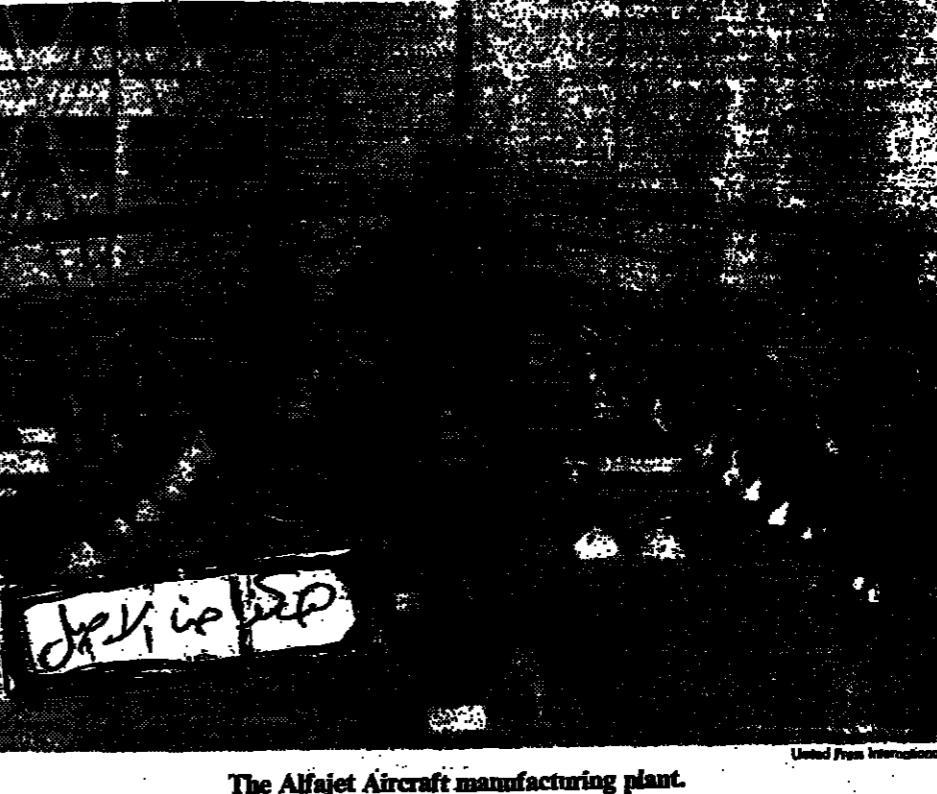
not only of major weapons systems production for the armed services but of exports in the long term.

The AOI was set up in 1975 with capital of \$1.04 billion, of which Egypt contributed four factories instead of cash. Two of the factories belonged to Helwan Aircraft Co. The others were the Sakr and Qader factories.

Previous Egyptian attempts to make military equipment had been overambitious. Most projects — including the HA-300 fighter aircraft, whose prototype was built at the Helwan factory near Cairo, and a planned turbo-jet engine — never got into production. Shortage of money was the critical factor. Interest in developing local military production was revived only by an infusion of Gulf funds in 1979.

Several joint ventures were established with foreign companies, some of which are still operating. Arab British Dynamics produces about 500 Swingfire anti-tank missiles a year. These are mounted on CJ-6 Jeeps produced locally by a joint venture involving American Motors Corp., another survivor of the AOI. A deal with Britain's Westland to assemble Lynx helicopters collapsed.

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The Alfajet Aircraft manufacturing plant.

United Press International

Another revived AOI project is assembly of the Franco-German Dassault/Dornier Alpha jet. Its importance is that it provides Egypt with a high-technology aerospace production base. The first fully assembled aircraft was handed over to the airforce in November 1982. About 45 Alpha jets are being assembled, initially at a rate of one to one and a half per month. Airframe components manufactured at Helwan include trailing edge flaps, ailerons, rudders, fuselage end sections and engine pipes. Final assembly of the Alpha's SNECMA Larzac engine is also undertaken there.

The British have become involved through United Scientific Holdings' partnership in Arab International Optoelectronics, which is due to start production of night-vision devices and laser range-finders in 1985. United Scientific has also been discussing assembly of its Scorpion light tanks in Egypt.

Future Egyptian air force procurement plans are also expected to involve acquisition of more General Dynamics F-16s, a new type of Mirage fighter or Northrop's F-20 export fighter. Egypt has been supplied with 40 F-10s, and an additional 40 F-16s are to be delivered starting at the end of next year. Any further acquisitions are likely to involve co-production of the aircraft and its Pratt & Whitney F-100 engines. General Dynamics has

also discussed establishing a military aircraft maintenance facility at Helwan. Northrop, meanwhile, has proposed co-production of its F-20.

Helwan is preparing to start production next year of the Brazilian Embraer EMB-312 Tucano trainer aircraft in addition to the Alpha jet. One hundred and eight out of an order for 120 Tucano aircraft will be built in Egypt as replacements for the air force's Czech L-29 trainers, which are also locally assembled.

Electronics is a prominent feature of Egyptian military production plans. The Beahla electronics factory, 30 kilometers (18 miles) north of Cairo is the most important domestic manufacturer of military electronics equipment. It employs 2,500 people making radio equipment. Negotiations are under way with Westinghouse to make its TPS-63 radar system under license; 8 have been bought and the proposal is to co-produce 34.

Much of what is proposed for aircraft, radar and other military-related manufacture and assembly will require substantial investment of money and skilled labor. The former is the tougher problem. Egypt has run into trouble in meeting interest payments on its U.S. credits. In the long term, the dream of self-sufficiency in military production may require attracting Gulf capital again.

and the NWCDA. Having got, or at least been promised, all the necessary permissions, the shareholders decided to raise more capital by forming a new company, Borg el-Arab Tourist Co., specifically to develop the project. Its capital of 30 million Egyptian pounds, 51 percent subscribed by UNIDO and the rest by private Egyptians and Qatars, is more than enough to build the first phase of the 88-million-pound project.

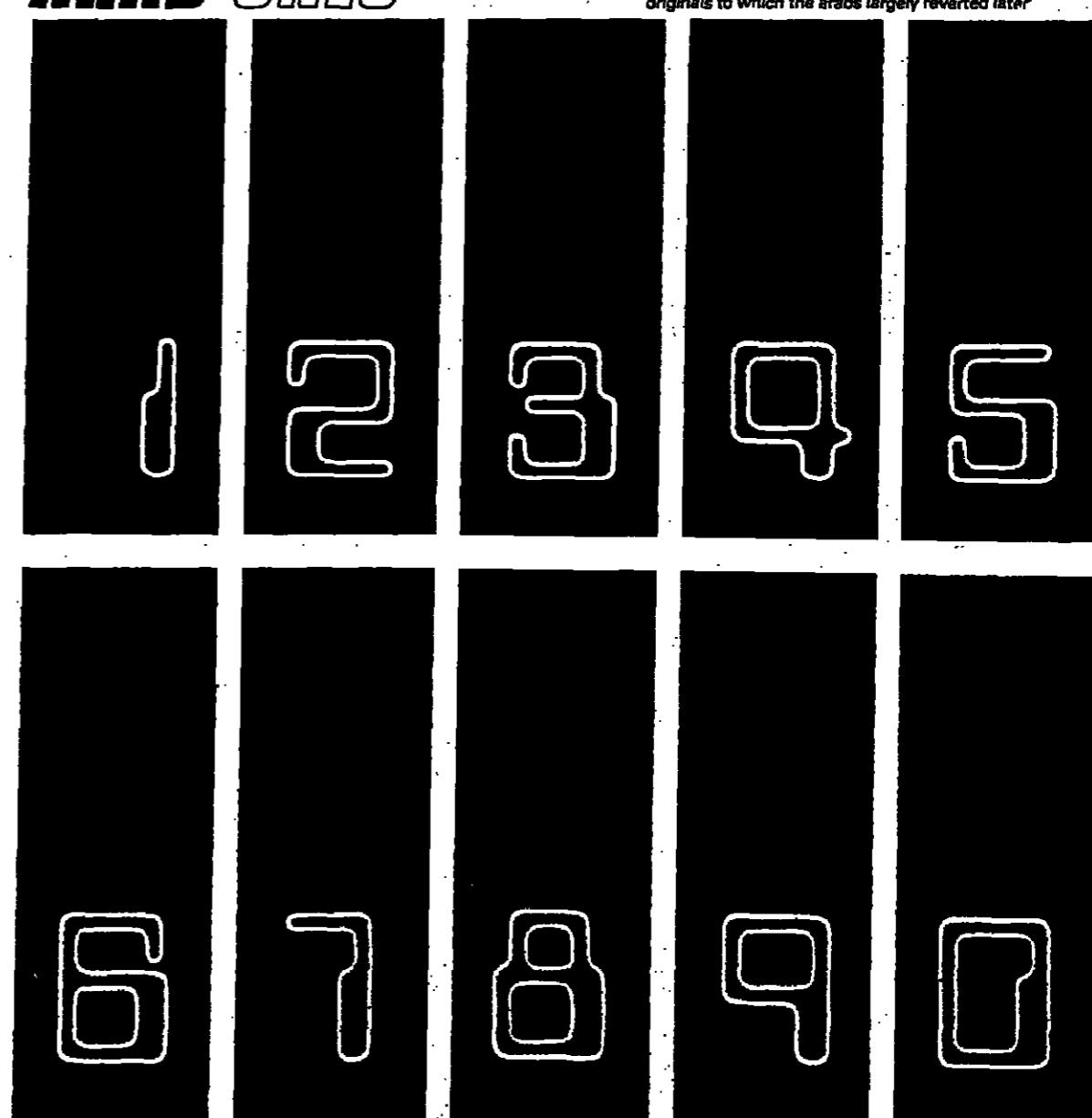
A British construction management team has been lined up to design and supervise the building, but work has not started. Final approval was promised by the Investment Authority last month enabling the contracts for the design work to be signed this month. Plans to start site work in September and construction at the turn of the year have had to be postponed.

— ALAN MACKIE

OUR NUMERALS ARE THE ANCIENT ARAB ONES



The introduction of Arabic numerals along with methods of calculation to the West in the 4th/ 10th century revolutionized life and thought. The Arabic numerals were the product of a gradual development from their Indian originals to which the Arabs largely reverted later.



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Arms Industry

Agricultural Expertise Fails to Reach Farmers in the Fields . . .

By Neil MacFarquhar

CAIRO — Late at night peasants from the governorates surrounding Cairo converge on the export terminal at the airport's cargo village. Their trucks wobble under mountainous loads of garlic, watermelon, peaches, string beans — a seasonally varied harvest that they stack in the parking lot when the terminal overflows. By morning it is gone, packed onto planes bound for Europe and the Gulf.

The abundance is deceptive. Growers fulfill local demand for fruits and vegetables, but Egypt is a long way from recapturing the self-sufficiency in food that it lost a decade ago. The bill for food imports — at least 50 percent of consumption — was \$2.5 billion last year, less than in previous years, because of lower grain prices, but still painful.

Government officials acknowledge that Egypt may never be able to feed itself. They predict, however, that within 10 years most imports will be eliminated while increased exports of cash crops such as strawberries will balance the cost of imported wheat and other staples.

But independent observers say the few extra tons of fruit sent overseas last year or higher yields on experimental rice farms do not represent real progress. They believe that Egypt will not be able to grow more until the government translates its goals into a campaign in the fields.

Investment in agriculture is limited to a 3-percent annual increase in the current five-year plan. If the budget for land reclamation and infrastructure such as drainage is included, the figure jumps to 10 percent.

The astronomical costs and low productivity of the land reclaimed thus far do not deter the government from backing large reclamation projects. Under the five-year plan, 636,000 acres (256,280 hectares) are to be reclaimed, 130,000 of which have been completed and sold to private investors. Some buyers are not developing the land for agriculture but hoping to make a profit from rising land prices.

There is a continuing policy tug-of-war between the government and aid organizations, which are reluctant to pay for reclamation. They feel it amounts to pouring money down a hole, especially since any increase in overall acreage is quickly lost to urban growth onto rich agricultural land. Experts argue that the government should instead invest heavily in increasing yields from the existing six million acres of farmland.

But the government believes the private sector should undertake investment in agriculture, especially in terms of selling seeds and other new products. "The farms are 97 percent private sector. The government must get out of the business of running farms," said Yousef Wally, the minister of agriculture.

In the past, Egyptians avoided investing in agriculture because of

extensive government controls. Farm gate prices — the money paid by the government to farmers for their crops — were kept low to defray the food subsidy program. The surplus was sold abroad at international prices and the profits — the major source of foreign exchange — invested in industrialization. But agricultural exports now earn only 11 percent of Egypt's foreign exchange, having been dwarfed by workers' remittances, Suez Canal tolls and oil sales.

Food subsidies now amount to 15 percent of government spending. Recent food riots in Tunisia and Morocco served as a sharp reminder that tampering with subsidies is politically explosive. But more money from other sectors means the government can remove some of the burden of underwriting subsidies from farmers.

Many prices have been deregulated or brought closer to international levels. Mr. Wally said that he would like to turn the entire sector into a free market, but that complete decontrol is not possible because crops such as cotton are tied in with other sectors of the economy.

Still, price controls have been eliminated on citrus, watermelon, and grapes — and the number of carts selling them on Cairo streets seemed to double overnight. Farmers now get international prices for fava and soya beans and the prices the government pays for wheat, sugar cane, peanuts, lentils and coffee have been raised.

But this has not convinced farmers to grow more, because the kind of food Egyptians want to eat is changing. The number of villagers who migrate to the city and begin to eat more meat rises every year. This keeps prices high, so farmers raise more livestock. Thus a vast amount of land is used to grow highly profitable livestock feed. "We are abusing the most fertile land in Africa to grow forage crops," said Mr. Wally.

Experts agree that "you can't just go out and plant the entire delta in string beans," said one private-sector food processing executive. "The peasants don't know how to cultivate them. There are no extension services and no market outlets. Changes can't be announced without doing the donkey work."

Experiments have shown that vegetable yields could be increased 260 percent and grain yields 70 percent. Higher yields have begun to break down the peasants' skepticism toward new, non-Egyptian varieties of crops.

With new plants and new techniques, Mr. Wally confidently predicts that Egyptians will be eating mostly locally grown food by 1994. He believes lentil imports — now 80 percent of consumption — will be eliminated in four years. For corn, he says, it will take five. Wheat will be imported "for a long time," but within seven years the export of strawberries from 15,000 acres — five times the current acreage — could pay for all wheat imports, he said.

Since research and extension projects are just beginning, experts say that expectations of across-the-board progress are overly optimistic. "You can't get the peasants to change their ways in a couple of years," said a U.S. expert. A variety of problems needs to be overcome, including the adaptation of some machines to fragmented plots, overwatering and poor drainage.

The government has completed 21 of 50 mechanization stations just down the road. Farmers will be taught to use new machines. Increased drainage as well as the introduction of sprinkler and drip irrigation is beginning to correct some of the problems.

Even if Egypt could change its agricultural methods in less than a decade, however, the growing population and the lack of an export market might undercut progress. The population, now 47 million and expected to reach 70 million by 2000, may eat the expected growth in production.

With rice, for example, exports have fallen from one million tons in the early 1960s, when Egypt was the world's largest exporter, to 20,000 tons last year. The three largest agricultural exports are cotton, oranges and potatoes. According to official figures, cotton exports were down slightly while orange exports jumped from 185,000 to 200,000 tons last year — growth attributed to price controls. Potato exports reached 150,000 tons and are expected to double this year.

But oranges and potatoes are easy crops to export because they do not rot easily. In a country where about 30 percent of fruits and vegetables rot before they reach local consumers, handling, packaging and marketing have to be improved to succeed with exports. The food processing industry also has great potential, but needs to be modernized.

The government hopes the private sector will rise to the challenge, but exports have long been controlled by the public sector, so few Egyptians have the experience needed to compete in international markets. Even if Egypt could cultivate 15,000 acres of strawberries, one company executive argued, they would be extremely difficult to sell in Europe because the market is supplied by many growers.

In Arab markets, on the other hand, Egypt has a distinct advantage in that it shares similar tastes and is geographically close. One Egyptian-French venture began a year ago sold \$1 million worth of luxury fruit jam in Saudi Arabia.

Officials of this company say the higher percentage of sugar compared to European jams, loyalty of Egyptian consumers abroad and the fact that advertisements from Egyptian television can be picked up in western Saudi Arabia all contribute to an expected 12-percent annual growth in sales abroad. They would like to ship even more, but cannot because of what they termed excessive Egyptian export regulations.



At work at a Cairo construction site. Increased migration from the farms to Cairo and jobs in Gulf have caused a decline in farm manpower. In some villages, more than half of the male population has migrated.

... Labor Shortage Reaches Village Level Because of Migration to Cities, Abroad

DAHSHUR — "Nothing is more like one Egyptian village than another Egyptian village," wrote one observer of the Egyptian countryside more than 40 years ago. Today, it is less the homogeneity of rural Egypt that would strike even a casual visitor than the great diversity in, for example, cropping patterns, levels of mechanization and agricultural commercialization.

The migration of labor abroad has played its part in this variety of agricultural styles and village life, for migration has not been uniformly experienced across the rural sector. Whereas in some villages more than 50 percent of the active male labor force has migrated, other villages have been scarcely touched by migration. In such a context it is hardly meaningful to talk about a "typical" Egyptian village. Reference to the impact of migration of one village can, however, illustrate some of the trends

and processes set in motion by migration.

The village of Dahshur, with a population of about 9,000, is 45 kilometers (27.5 miles) south of Cairo in the narrow strip of land that forms the valley to the west of the Nile. Dahshur's farmers produce high-value vegetable crops, primarily for the Cairo market, as well as subsistence crops for their own consumption.

In the 1950s and 1960s, landless agricultural laborers were in cheap and abundant supply in the village. With agricultural wages at bare subsistence level, these laborers were, in this village — and, indeed, throughout rural Egypt — the poorest strata of village society.

Today, landless agricultural labor has virtually disappeared from the village. Two factors primarily account for this: the migration of agricultural laborers abroad, and

their absorption into the village construction sector, whose boom is a result of the investment of migrants' savings in new and improved housing.

For the first time in this century, the village is experiencing a shortage of agricultural labor.

The first villagers to migrate were poor peasants and landless laborers who left in small numbers at the end of the 1960s. With the help of neighboring bedouins, they crossed the border with Libya to work in Libya's expanding agricultural and construction sectors. By the mid-1970s labor from most sectors of Dahshur's economy had joined the flow, which by the end of the decade was also moving to Saudi Arabia, Jordan and, more recently, Iraq.

Although only 10 percent of the village's households have members working abroad, the impact of migration has affected many areas of village economy and social life. The capitalist sector of village agriculture has been most severely hit. This is about 10 percent of the village farmers who work their land solely by means of wage labor. Land in Dahshur is relatively evenly divided, and capitalist farming is small-scale, compared to that in villages with a more unequal distribution of land.

For capitalist farmers the labor shortage and consequent real rise in male farm workers' wages have resulted in a severe profit squeeze.

Unable to invest in mechanization, many of Dahshur's capitalist farmers are sharecropping their land.

The labor shortage has affected the peasant sector of village agriculture far less acutely. Peasant producers, who farm about 81 percent of village land, work their small plots primarily by means of family labor. Although in the past

they have relied on wage labor at peak periods, they have been able to respond to the labor shortage in ways not open to the capitalist farmer.

By increasing the work of male family members and by using women in agricultural tasks traditionally assigned to men, the peasants have been able to compensate to a large extent for the shortage of wage labor, as well as for the possible migration of one of their household members. The labor shortage has, thus, not threatened the viability of peasant farming in the way it has capitalist production.

In other parts of the Arab world, notably North Yemen, migration has led to the marginalization of peasant agriculture. Peasant families either live off remittances or invest their savings in nonagricultural enterprises. This has not happened in Dahshur. The relative value of remittances and revenue from

generally boosted by migration, the standard of living of most village farmers has not shown a comparable rise. Indeed, throughout the rural sector, the trend over the last decade has been a decline in living standards for many villagers.

In Dahshur — and throughout the rural sector — villagers are increasingly having to turn to the private sector to supplement declining state aid. This places a heavy financial burden on many village families. Thus additional income is necessary merely to maintain past standards.

To the extent that this income is provided by migrant remittances and by the boom in those sectors of the village economy that have been stimulated by migration, the village has become dependent on the continued export of labor to maintain living standards. In light of the decline in demand for peasant and unskilled labor in most Arab labor-importing states, this is a precarious position for the village to be in.

— ELIZABETH TAYLOR

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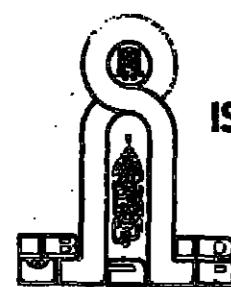
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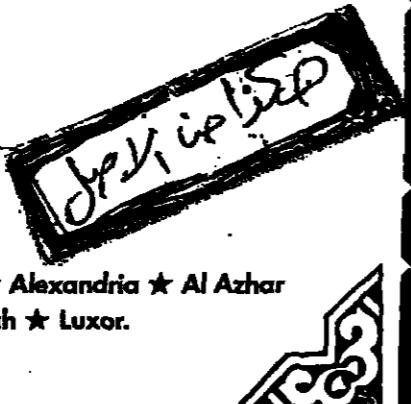
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Savings in distance

The SUMED pipeline is a short-cut to European markets for crude oil from the Arabian Gulf.

Via:	To: Rotterdam Netherlands	For: France Germany (Denmark included)	Augus t
African Cape	11,170	10,785	11,140
SUMED pipeline	6,430	4,650	4,000
Saving	4,740	6,050	7,000

Savings in time

The SUMED pipeline makes crude oil available at Sidi Kerir within 13 days of loading in the Arabian Gulf. Considerable time savings are therefore possible in supplying Arabian Gulf crude oil to European markets.

Via:	To: Rotterdam Netherlands	For: France Germany (Denys)	Augus t
African Cape	33	32	33
SUMED pipeline*	22	18	18
Saving	10	14	17

* Assumes five days for the SUMED transfer.

Improved through-transport economics

Large volumes of a single type of crude oil can be moved from the Arabian Gulf in bigger vessels than can be accommodated in the port of ultimate destination. Crude oil is offloaded into the pipeline at Ain Sukha and lifted at Sidi Kerir in vessels which meet the size limitations of individual European ports. By using the pipeline in this way, as a kind of superport or transshipment terminal, both large and small shippers of crude oil can optimize the use of their vessels and avoid the costs of two-port discharging or lightering at ports serving European refineries.

It is also possible for a large tanker to part-discharge its load into the pipeline at Ain Sukha, transit the Canal part-loaded and reload to its full capacity at Sidi Kerir.

In this way, the SUMED pipeline and the Suez Canal function as complementary facilities to aid shippers in the optimal use of their vessels.

Cargo flexibility

A single large tanker can load two different types of crude oil in the Arabian Gulf and discharge them into the pipeline system. Two smaller vessels can then lift the different crude oil types and make deliveries which meet the needs of individual European refineries, thus avoiding two-port discharging or lightering.

Similarly, two large tankers can each load one type of crude oil to full capacity at different Arabian Gulf ports, thus avoiding two-port loading. Both crude oil can be simultaneously offloaded into the SUMED pipeline and lifted at the Mediterranean end by a variety of smaller vessels, each destined for a single European port.

Savings in inventory investment and storage costs

As a result of distance and time savings and the flexibility which the pipeline makes possible, considerable savings can be achieved by users in tankage and inventory investment. Furthermore, smaller, more frequent deliveries of crude oil mean that shippers can respond better to fluctuations in refinery operations; shortages and surpluses are thus less likely to occur.

Competitive tariff structure

The SUMED tariff rates are structured so that total through-transportation costs are competitive with those for other routes. Users of the pipeline therefore remain cost-competitive with other shippers.

Security against disruption of services

The whole SUMED pipeline system is within the boundaries and under the jurisdiction of one country. Disruptions of pipeline services, such as those that have occurred on other systems, are therefore not a threat.

Furthermore, the line and the ports are owned and operated by a company which enjoys a considerable degree of autonomy within the Arab Republic of Egypt. For example, SUMED has a fully independent administrative system and users of the line incur no port charges.

SUMED Pipeline Owners

	Number of Shares	%	Initial Value (US \$ millions)
Algerian National Oil Co. (ADNOC)	6,000	15.00	60.0
General Petroleum & Mineral Organization of Saudi Arabia (PetroRum)	6,000	15.00	60.0
Egyptian Foreign Trading Contracting & Investment Co.	5,600	14.32	56.9
Kuwait Investment Co. (SAK)	300	0.75	3.0
Kuwait Metal Pipe Industries Co.	10	0.03	0.1
Outer National Petroleum Corp. (ONPC)	2,000	5.00	20.0
Egyptian General Petroleum Corp. (EGPC)	20,000	50.00	200.0
TOTAL	46,000	100.00	400.0

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EGYPT



Cairo residents crowd the beachfront in Alexandria.

Alexandria Tries to Turn Back Two Decades of Neglect

(Continued From Page 14)

and began production. Now — when Alexandria customs permits — he is supplying major European retailers with men's trousers.

Alexandrians resent the fact that they see so little from the 80 percent of the nation's trade that passes through the port, and the fact that their city annually accommodates half again its usual population of three million to give jaded Cairenes a breath of sea air. Tourists pack the 15-kilometer (9.3-mile) corniche, fouling the beaches and adding significance to the city's pollution problem. "We spend a lot to make them comfortable," said one businessman. The municipal tax on hotel rooms in no way covers

the costs of industry. Alexandria also produces glass, copper and iron, soap, sugar and tanned leather.

One of the largest industrial developments is the steelworks being built by the Japanese at Dikella. Site work for the \$800-million project has just begun. A new port is to be built west of Amritha, around the bay from Alexandria, to feed the plant. Within three to five years it will have developed sufficiently to be incorporated into Alexandria Port, doubling its capacity.

The port itself is constantly being improved; early next year a container terminal is to be opened. To serve the expanding docks, a new freight railroad to Cairo has been opened and the desert road improved to superhighway standards. It is shortly to have traffic.

No have Naim Abu Taleb's dreams of making Alexandria a fairer city died. Alexandria University, in conjunction with Britain's Liverpool University, recently completed a comprehensive plan for the city beyond the turn of the century. Masterminded by an academic, Mohsen Zahran, Alexandria 2005 aims to ease the exceptionally high population densities in the port area by relocation and expanding the city westward to 20 to 30 kilometers (12 to 18.5 miles).

Lake Maryut will be a focal point, a leisure area in its own right and a natural boundary between urban and the industrial zones, which will be south of the lake and run its length round to Amritha. A green belt will limit Alexandria's expansion south and eastward. A new airport is to be built west of Amritha to serve Alexandria and the completely new industrial and urban center at New Amrith about 30 kilometers farther west.

Making the city healthier is a major objective. Industries will be given 10 years to clean up, after which the disposal of effluent into Lake Maryut will be banned.

Of course there is never enough money. Plans to put the transway underground and build a thoroughfare the length of Alexandria await financing, as do plans to build an exit highway over the main Cairo railway line and a ring road by filling the Mahmudia canal.

However, the \$20-billion Alexandria 2005 plan has the advantage of being home-grown, flexible and, for Egypt, uncharacteristically modest in its ambitions. The authorities have pledged support for its conservation and planning measures. However, the governorate's resolve in withholding important developments has yet to be tested.

— ALAN MACKIE

Tourism Industry Searches for a Recipe for Growth

By Alice Brinton

CAIRO — Less than two years ago, it looked as if Egypt was priming itself for a big diversification program in its tourist attractions.

As recently as last year, the minister of tourism, Tewfik Abu Ismail, indicated that in an age of world recession and highly competitive tourism, Egypt could no longer draw enough tourists on its historical and cultural heritage alone. He wanted to attract wealthier tourists to combine archaeological sightseeing with a seaside resort holiday.

Today these plans seem to have been set back and tourist experts in Egypt appear to be rethinking their strategy. Egypt's tourist industry has suffered from the recession as well as the troubled political climate in the Middle East. Revenue from tourists, who will number about 1.5 million in 1984, was about \$1.5 billion in 1983 and is not expected to exceed that sum this year.

The government gets about 40 percent of that figure; the rest disappears into the black market system of foreign exchange. To increase revenue from tourism, Egypt

is looking to extend the average tourist stay of six days to between 10 and 15 days. This was why the ministry initially wanted to build luxury resorts in the Red Sea area, where wealthy tourists could go after seeing the archaeological treasures.

A Western tourism expert suggested why this type of development was not truly feasible now: "There is an infrastructure problem in the Red Sea area which the government has been slow to do anything about."

Further, he said, a master plan for the Red Sea region drawn up by the ministry shows that the sites chosen are very large, about two square kilometers (0.75 square mile) each. Such sites call for big development — something it is hard to sell foreign investors, and it is only through foreign financing that these luxury resorts could be built.

The expert also pointed out that travel to Egypt was still expensive. He added that he doubted whether Egypt could seriously attempt to compete yet with older international seaside resorts.

His views are shared by Egyptian tourism officials. One of them, Sami el-Masri, who is head of public relations at the Egyptian General Authority for the Promotion of

Tourism, says the country is a prisoner of its history and cannot hope to attract tourists in search of luxury resort holidays. Mr. Masri said he believed that other forms of tourism could be developed more profitably, such as devotional or pilgrimage tourism to Christian and Moslem monuments.

Bahi Nasr, director-general for tourist relations at the Egyptian General Authority for the Promotion of Tourism, said the stress in the future must be on domestic tourism. He said a survey by the Ministry of Tourism showed that more than 300,000 Egyptians go abroad for their annual vacations, usually to Mediterranean countries such as Italy, Malta, Cyprus or Greece, because these countries offer cheaper holidays than they can find at home.

Mr. Nasr said there were several projects under way to keep Egyptian holidaymakers at home by providing resort accommodations at reasonable prices. One government project has just been completed at Ismailia, 100 kilometers (62 miles) from Cairo, aiming at the middle-income Egyptian family and providing recreational facilities and a

hard currency because they pay for everything in Egyptian pounds."

Almost everyone in the tourist industry in Egypt agrees that the country allowed too many luxury hotels to be built in the 1970s and early 1980s, particularly in Cairo.

"This trend must end," Mr. Nasr said. "What we need more than anything are two- to three-star hotels and medium-priced tourist villages, such as the one at Magawish on the Red Sea, which until it was recently taken over by the Movenpick hotel chain was run by Club Méditerranée."

With well over 23,000 hotel rooms available in Egypt, most tourists experts agree that future developments must be tailored to fit all incomes. And if grandioses on the Red Sea are no longer in fashion, visitors are still an emphasis on giving the tourist more than magnificent monuments and a hotel room. Movenpick recently opened a recreational complex, already highly successful, on Crocodile Island in Luxor, with easy access to the sights. Egit has opened a hotel in Ismailia that includes water sports; Oberoi has opened a

small, medium-priced hotel in El Arish in Sinai and is completing a recreational complex on Lake Qarun in the Fayoum region.

All these hotels should attract a substantial number of domestic citizens as well as visitors from abroad.

At the same time, a great effort is being made to improve existing tourist sights. The Ministry of Culture has renovated a number of Moslem and Christian monuments in Cairo. Two hotel schools have opened. Work is going on at a number of secondary airports to permit easier access to places outside the large cities.

Still, at least one luxury resort is going ahead. The Bourg d'Arab project on the north coast, where construction is starting soon, is expected to appeal to both foreign visitors and to expatriate Egyptians in search of a holiday home, for the complex will include villas for sale. If this project succeeds, it will raise morale in an industry that has become somewhat stagnant in the last few months — and it might persuade new investors that, after all, the time has come to build other luxury resorts in Egypt.



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WALL STREET WATCH

Focus on Value Confirms That Stock Market Is Shaky

By EDWARD ROHRBACH

International Herald Tribune

You know that the stock market is in trouble now that sober words such as "worth" and "value" are popping up with alarming frequency. Heady terms — like "new era" — are heard bandied about when Wall Street is riding high and folks are bragging about their investments at cocktail parties and analysts are confidently making glowing projections into the next century.

One Los Angeles brokerage firm has oriented its investment policy around the concept of value. "We're looking more and more at underlying asset value in the stocks we recommend to clients," said David V. Jackson, co-director of research at Morgan O'Neil Kennedy & Gardner.

It's not enough to invest in companies growing at anything like the normal rate.

There has not been much effort in the past by investment firms to identify and quantify company assets, he pointed out. But now the focus is there, he said, with takeover attempts popular and the leveraged buyout phenomenon, in which financing is arranged based on the target company's asset value, then its cash flow is used after acquisition to pay off the loan.

"It's also true that value receives emphasis whenever the stock market is under pressure," he added. "It's a good defensive area to be in."

Heading Mr. Jackson's recommended list are Hilton Hotels, whose assets he figures at \$90 to \$100 a share, or worth nearly twice the company's current stock price, and Standard Brands Paint, with assets at as much as \$40 a share, about double what an investor can buy it for on the stock exchange.

Both companies have strong earnings momentum, he noted, and should outperform the general market if Wall Street goes up again.

Coastal Corp. is another recommended stock Morgan O'Neil Kennedy & Gardner lists for only about half its asset value. Other issues it estimates at 50 percent to 65 percent of asset value are Levi Strauss, Greyhound and Transco.

Stefan Abrams, a managing director and chairman of the stock selection committee at Oppenheimer & Co., goes a step further by asserting that asset appraisal must be a prime consideration by an investor "if he is going to have a fighting chance in this market where competition is fierce for the relatively scarce investment dollar."

"With stocks fully valued as measured by earnings and overvalued in relation to bonds plus the liquidity shortage, it's not enough to invest in companies growing at anything like the normal rate of 10 to 15 percent," he declared.

"You've got to find ones either being rehabilitated or liquidated that offer 30- to 40-percent growth."

The "market theme" he likes best involves "enterprise restructuring" that is, companies that have begun to maximize earnings power of their assets if only to avoid a takeover. He cited American Can, Trans World Corp. and R.J. Reynolds.

A second theme, "not unrelated," he said is "industrial turnarounds." Named were PepsiCo, Continental Corp. and Woolworth.

A third promising investment category, he cited, is where "highly competent owner-managers" are making strides to enrich their companies. He singled out Stone Container and Allegheny Corp., which he called "positively the most fascinating of all."

He said Oppenheimer figures Allegheny's bid of about \$200 a share for Conrail stands a good chance of acquiring assets valued at \$500 a share. "But there's a 20-percent risk overnight in the stock if they lose the bid," he warned.

Gérard de Pijnval, executive vice president for international markets at Crédit Agricole, Paris, remains cautious about Wall Street but sees constructive elements falling into place that augur well for the longer term.

"With returns now so high from such solid instruments as Treasury bills, investors can make money outside the stock market without having to be very smart," he observed.

Mr. de Pijnval, recently returned from a trip to Washington, said he was impressed by the "quality of the people" he spoke with in the Reagan administration, at the Federal Reserve and in

(Continued on Page 21, Col.3)

Bonn Unit Rejects Cable Plan

Fiber-Optics Bid Called Monopolistic

By Warren Geller

International Herald Tribune

FRANKFURT — The Federal Cartel Office in Berlin rejected Wednesday a proposal by five leading West German engineering and cable-making companies to build a 130-million-Deutsche-mark (\$47.8-million) plant in West Berlin to make optical fiber for telecommunications cable.

The office denied approval on the ground that such a clearance would give a monopoly in the technology to the same five companies.

Siemens AG, AEG-Telefunken AG, PKI (a subsidiary of Philips NV of the Netherlands), Standard Elektrik Lorenz (a subsidiary of ITT Corp. of the United States), and Kabelmetal Gmbh — that already have a virtual monopoly in the copper-cable market through a joint venture.

The government of Chancellor Helmut Kohl has supported the proposal in a bid to bolster West German competitiveness in high technology as well as West Berlin's flagging economy.

Despite its decision, the cartel office had indicated as early as last February that it favored the idea of the major cable producers linking up again to corner a new and potentially lucrative technology.

The five companies have maintained that they must unite to create economies of scale in glass-fiber production, insisting that production of at least 100,000 kilometers (62,000 miles) a year of optical fiber was the minimum necessary for a profit in the nascent home market and to be competitive against imports from the more advanced fiber-optics industries in the United States and Japan.

Spokesmen at the companies indicated that the companies would appeal the cartel office's denial. The appeal, to be successful, would first have to be approved by the Monopolies Commission in Bonn and then would require the backing of the economics minister, Otto Lambrecht.

The cartel office, according to a spokesman, Hartwig Wengemann, rejected the assertion that production of 100,000 kilometers a year was necessary for profitable production, and saw that assertion instead as an attempt to keep out smaller companies.

"We would not have denied approval for the project had the five companies agreed to split up the project into two separate groups," a cartel office official said.

The office said it had received a formal protest against the proposed plant from Wacker Chemie, a West German chemical company, as well as from the European Community that several West European companies outside of West Germany had complained about the project's inhibiting effect on high-technology competition within West Germany.

Wacker Chemie, a rapidly growing company based in Munich that produces silicon used in microchip production and has recently taken an interest in glass-fiber production, had lodged a formal complaint at the beginning of the year with the Cartel Office. It complained that the Berlin project would place smaller potential producers of glass fiber at a price disadvantage because the five companies could produce their own fiber at lower cost and then sell the material to their own cable-marketing divisions, which dominate the market.

The statement said that it is the intention of Argentina to continue negotiating with the managing director to complete discussions initiated in Buenos Aires with the IMF team.

It said Argentina believes that the general goals outlined in its letter of intent "will deserve final approval" of the agency and permit Argentina to proceed with negotiations with its bank lenders on about \$20 billion of debt that has matured, or will mature soon.

The major difference between Argentina and the IMF team

Argentina concerns inflation, in excess of 560 percent a year. Argentina wants to give workers inflation-adjusted wage increases of between 6 and 8 percent this



U.S. Retail Sales Leveled in May With 0.2% Rise

United Press International

WASHINGTON — Retail sales stagnated in May, increasing only 0.2 percent after two months of strong gains, the U.S. Commerce Department said Wednesday.

Without the month's 0.8 percent increase in auto sales, the pace was virtually the same as in April.

The sales report, which was adjusted for seasonal variations, reinforces the impression economists got from the May measurement of new employment, that the economy is experiencing another mild slowdown, perhaps because of higher interest rates.

The June 1 report on employment, although reflecting a 0.3-percentage point improvement in the unemployment rate, to 7.5 percent, also showed the nation's industrial economy is leveling off, creating no new factory jobs in May for the first time in many months.

Retail sales grew a strong 3.1 percent in April, revised figures showed, and were up 1.5 percent in March.

Retail sales were valued at \$107.3 billion in May, the department said, 10.3 percent above a year earlier.

The steady increase in auto sales, which include purchases of imported cars, took the monthly total in that category to a record \$22.2 billion, 20.9 percent above a year ago and slightly above the previous high, in January.

But the May increase in auto sales was hardly comparable to the 20.9-percent increase recorded the month before.

Service store sales increased 0.9 percent in May.

Furniture store sales were down 2.6 percent in May after April's exceptionally strong 13.7-percent increase.

Building materials sales also were down, but only 0.2 percent, after a 12.2-percent increase in April.

All durable goods sales, of heavy-duty products such as autos and large appliances, climbed 0.2 percent.

Nondurable goods sales also went up 0.2 percent.

Department store sales were up a full 1 percent, and clothing stores reported a 1.9-percent increase, the healthiest figures in the report.

Food store sales were down 0.5 percent, and drugstore sales fell 0.9 percent.

The pace of the economy has been an enormous question mark for many analysts and investors lately, with general agreement that a slowdown is under way but disagreement over whether the economy is sharp enough to keep interest rates from going up.

Despite Labor Department statistics showing extraordinary growth in new jobs, which pump new income into retail establishments, analysts have also taken note of the fact that factory jobs are not growing.

Japan Uses High Tech for Low Tech

By Andrew Pollack

New York Times Service

TOKYO — What do you do with an exotic metal alloy that has the ability to "remember" its original shape and return to that shape when heated?

In the United States, the answer is: Use it to make pipe joints in fighter planes and think about using it for satellites that could be launched in compact form and would unfold automatically in space.

But in Japan, the answer is: Use it to make eyeglass frames, air-conditioner louvers and a toy in which a boy's head and a girl's head are separated by a wire made of the alloy. When the toy is dunked in hot water, the wire returns to a ring shape, bringing the heads together in a kiss.

The example illustrates a major difference between the two nations, now vying for world supremacy in high technology.

In the United States, technological emphasis is often on a big military or space project, with little regard for immediate commercial applications.

(Continued on Page 21, Col.3)

Argentina Seeking to Avoid IMF Confrontation

By James L. Rowe Jr.

Washington Post Service

WASHINGTON — The Argentine government has apparently attempted to avoid a confrontation with the International Monetary Fund by saying a "letter of intent" it sent to the fund, detailing its economic program, is meant to be the opening of "negotiations with the management of that organization."

The economy minister, Bernardo Grinstein, and other government officials said on Monday in Argentina that the letter, the first step in developing an economic program acceptable to the IMF, should be presented to the government that make up the IMF executive board even though the stand and the country had not come to agreement.

The stand concerned objected to Argentina's move, calling it "unprecedented."

But a statement released here Tuesday by the Argentine Embassy was far less belligerent and indicated that the debtor nation was not trying an end-run around the fund's managing director, Jacques de Larosière.

The statement said that it is the intention of Argentina to continue negotiating with the managing director to complete discussions initiated in Buenos Aires with the IMF team.

It said Argentina believes that the general goals outlined in its letter of intent "will deserve final approval" of the agency and permit Argentina to proceed with negotiations with its bank lenders on about \$20 billion of debt that has matured, or will mature soon.

Argentina, the world's third largest debtor with foreign loans totaling about \$44 billion, has been negotiating with the IMF for months to reach an agreement on a

program to reduce inflation and to help it to repay its loans.

But any introduction by Argentina of austerity measures demanded by the IMF could provoke a severe political backlash against the newly elected democratic administration of President Raúl Alfonsín.

An Argentine source said that at least some of the tough talk in Buenos Aires, especially the demand that Mr. de Larosière take Argentina's position directly to the IMF board, is related to the political climate of the country.

IMF officials have said privately that they sympathize with the problems of the Alfonso government, which could be attacked by the labor-dominated Peronist opposition if it agrees to reduce real wages.

However, these officials said they might be willing to approve an increase in real wages if Mr. Alfonsín were willing to reduce other government spending. In the embassy statement, the government said it wanted to raise "real wages using budgetary reductions in other areas."

The major difference between Argentina and the IMF team

is a reference to Argentina, Federal Reserve Board Chairman Paul A. Volcker, said it is difficult to achieve consensus for the strong measures needed. "But democracy is also likely to flourish in the midst of accelerating inflation and economic isolation," he said in a speech to the Japan Society in New York.

Meanwhile, Argentine officials and bankers say they are worried that the U.S. government will cancel an agreement to lend Argentina \$300 million as soon as it reaches accord with the IMF.

Treasury Secretary Donald T. Regan said Tuesday that the United States will wait until Friday, when the commitment expires, before deciding whether to renew the agreement.

SOLVAY in 1983:

**Continued expansion.
The Group's profitability surged and consolidated net results doubled.**

Confirmed recovery

1983 saw most sectors of activity emerging from the recession, with a marked improvement in the chemical industry.

The favourable international business climate greatly contributed to the financial strengthening of many chemical concerns during the year.

Our industrialization of the industry was carried out through restructuring and reorganization of activities and steps were taken to improve efficiency in energy consumption and manpower utilization.

A promising future

The favourable effect of measures taken by Solvay in these fields became apparent in 1982 and persisted in 1983, to the advantage of results for the year. In addition, some beneficial factors intervened to put the plastics sector back on its feet again: industry-wide restructuring, undertaken in the European chemical industry since 1982, recovery of PVC prices in Europe and industrial demand, most notably for polyvinyl chloride.

The Group's plastics processing business also expanded, with sales of decoration and "do-it-yourself" products, as well as car parts, improving.

Profits from operations in basic chemicals, most of which had been spared the ill effects of the 1982 crisis, were at a satisfactory level.

Keys to the Group's success

One of the Group's chief strengths is its presence in the heavy chemicals business, with manufacturing facilities well adapted to markets, whether they are located in Europe or overseas.

Another important Group asset is the traditional Solvay high technology known for guaranteeing continuous improvement in production processes, thereby securing numerous entries into upcoming growth areas.

R & D to break new ground

The Group's laboratories ensure a permanent renewal of the product range by substitution of new for old items. This explains

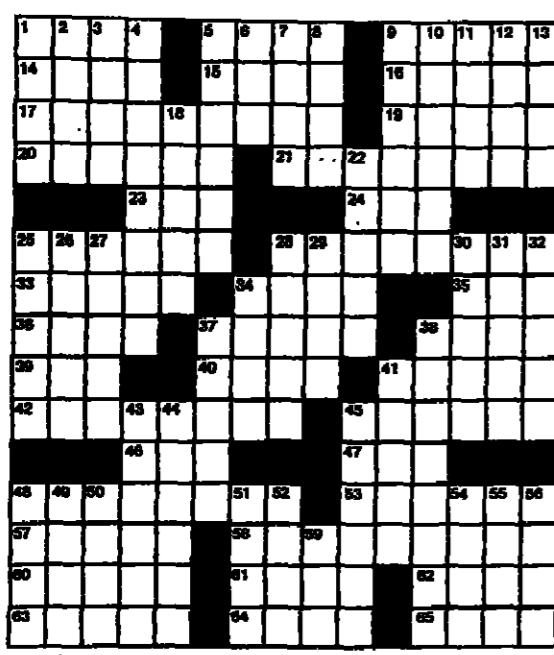
Key figures

In millions of BF	1983	1982

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INTERNATIONAL HERALD TRIBUNE, THURSDAY, JUNE 14, 1984



ACROSS

- Till contents
- Type of lettuce
- Indian state
- Patchwork
- TV backdrop
- Rossetti's "Beatrix"
- Her creation became a national emblem: June 14, 1777
- Fighter for actors' rights
- Cudgelers
- Francis: 1778-1843
- Enzyme
- C.S.A. hero
- Old hand
- Author born on June 14, 1811
- Great Lakes acronym
- Dissolute fellow
- Red-white-and-blue wearer
- Oustcast class in Japan
- Engraving
- Blank
- Small ape
- He helped establish the U.N.
- "Spaniard" author

DOWN

- Diamond great
- A name for Athens
- Perches
- Headliners of 1970-81
- Rio Grande formation
- Dockers' org.
- She seldom harried Harry
- Autumn pear
- Ebbs; waves
- Sonnet part

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PEANUTS

GUESS WHAT, CHARLES... I GOT STRAIGHT "A'S" ON MY REPORT CARD THIS TERM...

PEPPERMINT PATTY FAILED EVERY SUBJECT... NOW, HER DAD IS TAKING HER TO EUROPE FOR THE SUMMER...

YOU KNOW WHERE I'M GOING? NO PLACE!

EVERY TIME I TRY TO FIGURE THAT OUT I GET DIZZY!

BLONDIE

I THINK I'LL SURPRISE DAGWOOD AND PICK HIM UP THIS MORNING...

I CAN'T WAIT TO SEE THE LOOK ON HIS FACE...

CRASH...

THAT WASN'T THE LOOK I HAD IN MIND...

BEETLE BAILEY

ANY IDEAS ON HOW THE WORLD CAN ACHIEVE PEACE?

YES, CHAPLAIN IF EVERYONE GIVES WAY TO THE OTHER GUY, THEN THERE'LL BE NO MORE WARS...

MOVE OVER, SARGE, YOU'RE TAKING UP ALL THE ROOM!

...

ANDY CAPP

EVENING, ANDY...

THE USUAL? PLEASE...

AND ONE FOR MY MUM-IN-LAW...

SHE HASN'T SPOKEN TO HIM FOR A MONTH: HE LIKES TO SHOW HIS APPRECIATION...

...

WIZARD OF ID

SIRE, IF YOU WOULD LEAD THE TROOPS INTO BATTLE, IT WOULD BE AN INSPIRATION...

IM SURE THEY WOULD FIGHT LIKE THERE WAS NO TOMORROW...

FOR WHOM?

...

...

REX MORGAN

THE DAY THAT PAUL TOOK ME UP TO HIDDEN LAKE, HE TOLD ME THAT EVERY YEAR HE AND HIS WIFE MARY WOULD GO THERE TO SPEND A FEW DAYS!

HE HAD NOT BEEN THERE SINCE HER DEATH...

IT MADE ME FEEL SORT OF PRIVILEGED THAT HE'D SELECT ME TO GO BACK WITH HIM...

PERHAPS HE SAW IN YOU SOME OF THE SAME QUALITIES HE SAW IN HER, AMY...

...

GARFIELD

HOW WOULD YOU LIKE YOUR BACON PREPARED, GARFIELD?

LET'S SHOOT FOR RECOGNIZABLE...

JON IS A TERRIBLE COOK, HE COULD RUN CEREAL...

BACON FLAMBE, YUM YUM...

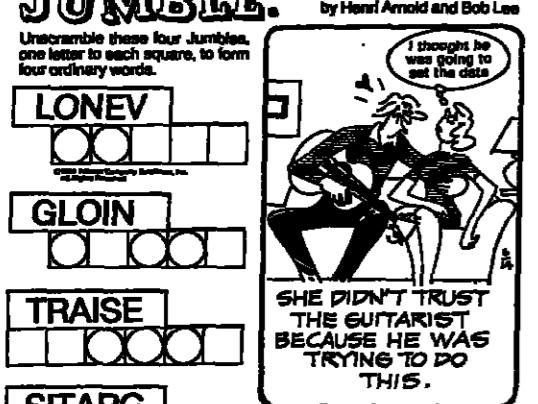
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DENNIS THE MENACE



"IT'S A NEW MOON. I DON'T KNOW WHAT THEY DO WITH THEIR OLD ONES."

JUMBLE



Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

LONEV

GLOIN

TRAISE

SITARG

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Answer: **HER**

(Answers tomorrow)

Yesterday's Jumble: FINNY BASSO FEMALE UNHOLY

Answer: **that big bash—BASHFUL**

WEATHER

EUROPE

ASIA

AFRICA

LATIN AMERICA

NORTH AMERICA

MIDDLE EAST

AMERICA

DOMINICAN REPUBLIC

GUATEMALA

HONDURAS

NICARAGUA

EL SALVADOR

CHIAPAS

GUATEMALA

SPORTS

Celtics Beat Lakers for NBA Title

By David Remnick

Washington Post Service

BOSTON — One day this summer, some lonely soul will climb into the Boston Garden rafters and hang a green and white banner on the beams.

"Boston Celtics," it will read. "1984 World Champions." It is the 15th such banner, and the Celtics captured it Tuesday night, 111-102, in the seventh and deciding game of the National Basketball Association championship series against the Los Angeles Lakers.

So ended the eighth chapter of a peculiarly stilted classic. The Lakers have played the Celtics eight times in the finals, and eight times they have lost.

Celtic Maxwell will join the list of any Boston heroes after his performance here Tuesday night. He scored 24 points and played with the sort of inspiration the Celtics needed to gain the edge in so brutal and even a series.

Kareem Abdul-Jabbar of the Lakers led all scorers with 29 points, but he was not supported by his team's usual mastery off the fast break. For long stretches of time, it seemed Abdul-Jabbar played alone.

The Lakers cut a 99-85 deficit, with 7:57 left, to 105-102 seven minutes later, but two crucial turnovers by Magic Johnson gave the Celtics the room they needed to preserve a victory they seemed to have in hand.

Free throws by Dennis Johnson (22 points) and Larry Bird (20 points) put it away.

When it was over the Garden crowd mobbed the floor. The Celts practically rode the green wave to their tiny dressing room.

K.C. Jones had won his first championship as a professional coach. It took a bit of Celtic magic to get him the title.

The championship comes one year after the Celtics were swept by the Milwaukee Bucks in an Eastern Conference semifinal.

Maxwell epitomized the tone of this game. Not only did he score 17 points in the first half, he also hit the floor for every loose ball, took verbal jabs at the opposition and went up for every rebound.

Abdul-Jabbar and Bird handled the ball far more than they usually do — a strategy that turned out well for both. Abdul-Jabbar scored 12 points in the first quarter.

If he had not looked to score so often, the Lakers might have found themselves in trouble. The last lead was not there. And neither was Bob McAdoo, who had a severely strained Achilles' tendon instead of McAdoo, the Lakers went to Mitch Kupchak when they needed a reserve power forward. Kupchak scored a couple of times but was awkward, not nearly the threat that McAdoo, who once led the league in scoring, posed in the earlier games.

Because of Abdul-Jabbar's shooting, the Lakers kept pace with Boston's inside game, and the score was 30-30 after the first quarter.

But while Abdul-Jabbar rested periodically in the second quarter, the Celtics attacked. Danny Ainge, the presence of three superstars — Abdul-Jabbar, Magic Johnson and Bird — made every game in this series a fascinating affair be-

cause of Maxwell all made big shots to give Boston a 47-38 lead with 7:42 left in the half.

James Worthy, Maxwell's principal rival as both a rebounder, scorer and psych artist, led a short drive that brought the Lakers within four points with four minutes left. Maxwell smartly went to the boards everytime he got the ball and either drew fouls or hit the layup. He passed to Bird under the hoop for a stam dunk and a 57-49 lead with 1:27 left in the period.

The half ended with the Celtics leading, 58-52.

Leading by only 82-78 with 2:03 left in the third period, the Celtics off nine straight points to end the quarter. It was certainly the most crucial stretch in the game. Kevin McHale, Ainge and Robert Parish found the range while the Lakers' offense looked slow, a chronic underwater ball.

When McHale made two foul shots to end the period with a 91-78 lead, the fans began to chant with the force of thunder: "Beat L.A.!" They have been chanting that here ever since.

The Celtics played for the title in six previous seventh-game situations and never lost. Between 1959 and 1969, they played the Lakers seven times in the finals and won every time. K.C. Jones, Boston's coach, was a defensive specialist on the championship Celtic teams of that era.

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But while Abdul-Jabbar rested periodically in the second quarter, the Celtics attacked. Danny Ainge,

young hype. Johnson showed his vulnerabilities in Los Angeles' two overtime losses and his passing virtuosity in setting a record for assists in a championship series. Bird and Abdul-Jabbar have thrived despite double- and triple-teaming.

"This is the ultimate game," said the Lakers' coach, Pat Riley. "The ultimate." Precisely.

■ Reagan Welcomes Team

President Ronald Reagan met the Celtics in the White House Rose Garden on Wednesday to congratulate them on their triumph, United Press International reported from Washington. "From the Boston Garden to the Rose Garden, it's been quite a year for the Celtics," Reagan said.

LOS ANGELES

	W	L	Pct.	GB
Ronalds	3	1	.750	0
Worthy	9	14	.391	4
Abdul-Jabbar	12	22	.348	4
Johnson	5	14	.294	14
McHale	2	3	.667	1
Kunichuk	2	4	.333	5
Scott	2	7	.250	3
Terry	0	8	.000	9
Robins	0	17	.000	0
Total	41	84	.300	22
BOSTON				
McAuley	5	10	.333	24
Bird	10	14	.429	2
Parish	4	16	.231	12
McAdoo	3	12	.250	17
McHale	4	6	.429	3
Buckner	1	1	.000	1
Ainge	1	12	.083	11
Giles	0	8	.000	0
Tom Robins	0	11	.000	0
Total	34	84	.300	22
Three-point goals—Casper 2, Technicals—Boston, 14; Robins, 10.				

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The presence of three superstars — Abdul-Jabbar, Magic Johnson and Bird — made every game in this series a fascinating affair be-



Kareem Abdul-Jabbar of Los Angeles attempts a first-quarter shot over the outstretched arms of Robert Parish.

Astros Defeat Reds On Niekro Shutout*United Press International*

HOUSTON — Joe Niekro pitched a three-hitter and Bill Doran, Jose Cruz and Jerry Mumphrey led a 13-hit attack Tuesday night to power the Houston Astros to a 7-0 victory over the Cincinnati Reds.

Niekro (5-7) walked one and struck out four in gaining his

third straight loss for the Brewers, who are 2-10 in June.

Blue Jays 12, Tigers 3

In Toronto, George Bell had three hits and two runs batted in, Ernie Whitt hit a three-run homer and Damaso Garcia had four hits as the Blue Jays beat Detroit, 12-3, to end a five-game losing streak.

Red Sox 3, Yankees 8

In Boston, Dwight Evans hit a three-run homer in the eighth inning off Dave Righetti as the Red Sox defeated New York, 9-8, for their sixth straight victory. Tony Armas added his 15th homer for Boston.

Rangers 6, Twins 2

In Arlington, Texas, Danny Darwin and Odell Jones combined on a seven-hitter and Larry Parrish hit a solo grounder to second by Mumphrey.

Doran drove in Houston's third run in the second inning by singling home Phil Garner, who singled and went to third on Niekro's single.

Angels 3, White Sox 2

In Anaheim, California, Doug DeCinces' broken-bat single with the bases loaded and one out in the 10th drove in Rob Wilfong with the winning run to give the Angels a 3-2 victory over Chicago.

Mariners 3, Royals 2

In Seattle, Larry Milbourne's two-out single scored Darnell Coles from second base in the 10th inning as the Mariners defeated Kansas City, 3-2. Milbourne had the final three innings for the Dodgers and earned his fourth victory in five decisions.

Cubs 11, Expos 4

In Chicago, John Davis hit two homers and Mac Hall and Gary Matthews had one each to lead the Cubs to an 11-4 victory over Montreal.

Dennis Eckersley (1-2) picked up his first National League victory. Gary Carter homered for Montreal.

Cardinals 7, Phillies 2

In Philadelphia, George Hendrick drove in three runs with a single and a homer, and Ricky Horton and Neil Allen combined on a four-hitter to lift St. Louis to a 7-2 victory over the Phillies. Horton (2-0), making his first major-league start, yielded four hits and two runs in five innings, and Allen retired all 12 men he faced.

Pirates 6, Mets 3

In New York, Milt May's bases-loaded, two-run single was the big hit in a four-run first inning as Pittsburgh beat the Mets, 6-3.

Padres 7, Braves 6

In San Diego, Graig Nettles singled home Alan Wiggins from second base with the winning run in the 12th inning to give the Padres a 7-6 victory over Atlanta for their seventh straight victory.

Orioles 5, Brewers 4

In the American League, in Milwaukee, Mike Young and John Shelby homered in the eighth inning off Rollie Fingers to give Baltimore a 5-4 victory over the Brew-

SPORTS BRIEFS

Africans Discuss Stand on Olympics

UNITED NATIONS, New York (AP) — The chairman of the United Nations Committee Against Apartheid says the prospect that Zola Budd, a South African-born runner, will compete at the Los Angeles Olympics is "cause for concern."

Major General Joseph N. Garba of Nigeria, chairman of the anti-apartheid committee, said Tuesday after meeting with seven African sports officials that "the idea of a boycott exists." But Amadou Lamine Ba of Senegal, secretary-general of the Association of National Olympic Committees and the Association of African Sports Confederations, warned against a boycott.

Budd, an 18-year-old runner, qualified for the British Olympic team after emigrating from South Africa and being granted British citizenship. South Africa is barred from the Olympics because of its racial policies. All African nations in the Olympic movement have said they will participate in the Games, which open July 28.

Jimmy Connors, the defending champion and No. 3 seed, advanced with a 6-1, 6-3 victory over Ricardo Acuna of Chile. But two other seeds in this Wimbledon warmup, Mel Purcell and Scott Davis, were defeated. Purcell lost to Steve Meister, 7-6, 7-6, and Davis lost to Steve Denton, 7-5, 7-6. All are Americans.

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